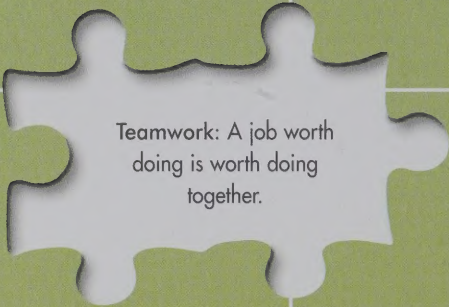




ANNUAL REPORT 2005



Teamwork: A job worth
doing is worth doing
together.

CEO's Message	1-3
Five Year Historical Summary	4
Environmental, Health & Safety Policy	5
Summary Of Operations	6
New Plant Activity	6-9
Locations	9
Operating Plants, Construction Projects & Development Prospects	10
Independent Asset Evaluation	11
The Melancthon Wind Project	12-16
Management's Discussion & Analysis	17-36
Management's Report	37
Auditors' Report	37
Audited Consolidated Financial Statements	38-54
Wechiau Update	55
Corporate Information	56

Annual General Meeting of Shareholders

The 2005 Annual General Meeting of the Shareholders of Canadian Hydro Developers, Inc. will be held in the Conservatory at the Calgary Zoo, 1300 Zoo Road N.E., Calgary, Alberta at 3:30 pm on Thursday, April 27, 2006

WORKING TOGETHER

TEAMWORK



CEO's Message

"It takes teamwork and combined passion, commitment, resources, and above all, perseverance from an extended team of stakeholders to move low-impact renewable energy development projects forward from concept to completion."

What a year 2005 has been! Canadian Hydro Developers, Inc.'s impressive list of achievements and results simply could not have been possible without the combined efforts of many individuals and groups pulling in the same direction toward common goals. It's clear that Canada is starting to "do its part" in the effort to stem global climate change.... And we're extremely proud to be a part of that process.

It takes teamwork and combined passion, commitment, resources, and above all, perseverance from an extended team of stakeholders to move low-impact renewable energy development projects forward from concept to completion. These 'team players' include Canadian Hydro directors

and employees at all levels, as well as consulting engineers, landowners, lawyers, contractors, bankers, financiers, shareholders, insurers, and last but not least, the support of many representatives of the federal, provincial and municipal governments. Canadian Hydro congratulates each of these parties for their efforts and contributions.

A Record-Setting Year

Canadian Hydro Developers, Inc. set new records this year in terms of new plant additions, new power sale contracts signed, equity and debt financings, electricity generation, and financial results. From successfully completing and commissioning the Grande Prairie EcoPower® Centre and the Upper Mamquam Hydroelectric Plant, to financially structuring over \$400 million in equity and debt instruments, to starting and nearly completing our largest project to date, the Melancthon I Wind Project, and then topping that off with winning three new power contracts that will more than double our existing operation within the next three years, 2005 has been a year to remember for Canadian Hydro!

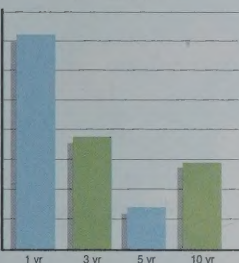


Teamwork divides the
task and doubles the
success.

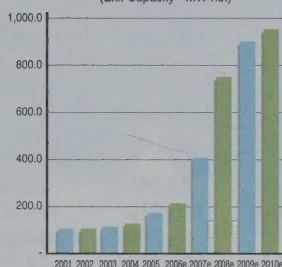
2005 Achievements and Results:

- Added 53.2 MW of new capacity;
- Acquired an expanded inventory of wind and hydro prospects in Ontario;
- Started construction in the spring on the 67.5 MW Melancthon I Wind Project in Ontario, which is slated for completion at the end of Q1 2006;
- Closed a \$35 million, 10-year private placement secured bond financing for the Pingston Hydroelectric Plant at 5.281% in Q1 2005;
- Closed a \$120 million, 10-year private placement unsecured bond financing at 5.334% in Q3 2005, demonstrating our access to low-cost sources of debt capital. Proceeds were used to repay existing bank facilities;
- In conjunction with this bond financing, we restructured our borrowing arrangements with our bank syndicate, establishing a \$25 million unsecured general line of credit and a \$75.6 million construction line of credit for the Melancthon I Wind Project;
- Signed three 20-year green power sale contracts with the Ontario Power Authority in Q4 2005 totaling 340 MW (net to Canadian Hydro's interest) for the proposed 132 MW Melancthon II Wind Project, the 197.8 MW Wolfe Island Wind Project and the 20 MW (10 MW net) Island Falls Hydroelectric Project. Combined, these projects represent approximately \$700 million in new construction costs over the next three years;
- Closed a \$188.3 million common share equity issue in December 2005 at \$5.10 per share, being the majority of the equity required for the three new Ontario projects awarded contracts in Q4;
- Year end share price of \$5.83 represents a compounded average growth rate of 72%, 38%, 14%, and 29% for 1, 3, 5 and 10 years respectively;
- Electricity production increased by 16% to 465 million kWh; and
- Financial results include:
 - 1) Revenue increased 22% to \$29 million;
 - 2) Cash flow from operations was relatively unchanged at \$10 million;
 - 3) Earnings before income tax of \$2.6 million were 61% lower than 2004; and
 - 4) Net earnings of \$0.8 million were achieved.

Compounded Annual Growth
Rate of Stock Price



Growth Objectives
(Exit Capacity - MW net)



Business Environment

We are pleased with the support we enjoy in each of the three Canadian provinces in which we operate. Both Ontario and British Columbia currently require significant new generating plant capacity and both provinces' governments have made policy and legislative changes to encourage investment in low-impact renewable energy projects. Ontario, for example, recently announced contract awards for its latest round of competitive bidding for renewable power (350 MW or 36% won by Canadian Hydro). British Columbia recently issued its next Request for Proposals with bids due in Q2 2006. The province of Alberta has long supported green power development, showing its support by purchasing over 90% (45% from Canadian Hydro) of the government's long-term power requirements from certified green power sources.

In addition, the Federal government supports our industry with several initiatives, including the Wind Power Production Incentive (WPPI) and the proposed Renewable Power Production Incentive (RPPI) that provide revenue incentives for wind power and other green power sources respectively. The RPPI program was announced in the 2005 Federal Budget and is expected to become effective April 1, 2006. Also announced in the Budget was a quadrupling of WPPI that will see the wind program extended from 1,000 MW to 4,000 MW. We have signed a 10-year Contribution Agreement for WPPI for our 67.5 MW Melancthon I Wind Project, and expect to qualify for WPPI and RPPI support for the 350 MW of new contracts signed in Q4 2005, when those projects are completed.

Local governments and the people in the communities where we own, operate and develop power plants have also shown real leadership in their support of these

innovative projects. Our shared vision of renewable energy projects creating regional economic development ensures that Canadian Hydro and these communities will continue to grow and prosper.

Community Involvement

Beyond our Canadian borders, we began a fundraising campaign in 2004 to support the installation of up to 550 solar white LED lighting systems for the Wechiau Hippo Sanctuary in Ghana, West Africa by coordinating a three-way collaboration with the Calgary Zoo and the Light up the World Foundation. I am pleased to report that, with the help of many friends and interested parties, we have raised over \$144,000, ensuring the success of this program much to the delight of the receiving families and communities.

Employees and Directors

We welcome the many new employees that joined our team in 2005, particularly in Pincher Creek and Grande Prairie, Alberta and in Ontario, where we'll focus on continuing construction of new facilities in 2006. We also wish to welcome Jim Shaw to the Board of Directors. Jim is the Chief Executive Officer of Shaw Communications Inc., a diversified Canadian communications company whose core business is broadband cable television, high speed Internet and other related services. Shaw, through one of its affiliates, has been one of our major shareholders for several years.

On behalf of the Board of Directors and all Canadian Hydro shareholders, I would like to thank the entire, extended team for their support during 2005. A special thank you goes to all Canadian Hydro employees who worked so hard and truly made a difference in 2005, and to the Board of Directors for their valuable advice again this year. We look forward to many more successes in 2006 and beyond.

On behalf of the Board of Directors,

John D. Keating
Chief Executive Officer

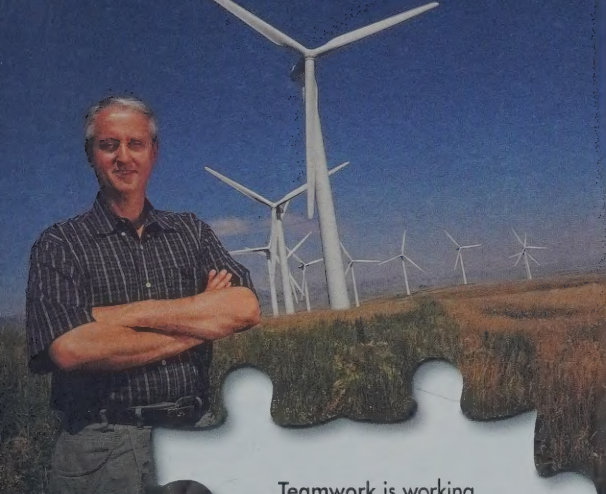
SUMMARY

	2005	2004	2003	2002	2001
FINANCIAL RESULTS <i>(in thousands of dollars, except share and per share amounts)</i>					
Revenue	28,899	23,707	21,662	16,796	15,608
Cash flow from operations ¹	9,901	10,289	8,854	6,152	5,649
Per share (diluted) ²	0.12	0.14	0.14	0.12	0.14
Net earnings (loss)	820	4,180	3,087	(3,367)	3,701
Per share (diluted)	0.01	0.06	0.05	(0.07)	0.09
Capital expenditures	129,144	50,303	22,343	28,094	45,915
Total assets	583,349	243,591	193,310	164,433	140,651
Long-term debt	224,927	64,800	61,799	66,911	40,780
Shareholders' equity	326,578	121,272	103,314	71,107	65,996
Common shares outstanding					
Basic	118,223,873	74,683,861	68,885,539	52,590,539	48,151,301
Fully diluted	123,006,023	78,527,761	78,527,761	61,612,761	60,391,423
Net book value per share	2.76	1.62	1.50	1.35	1.37
Return on average capital employed ³	9%	12%	12%	10%	10%
Cash flow return on average shareholders' equity	4%	9%	8%	9%	12%
Net earnings (loss) return on average shareholders' equity	1%	4%	3%	-5%	8%
OPERATING RESULTS					
Installed capacity – MW (gross)	191.0	143.8	125.4	95.4	95.4
Installed capacity – MW (net)	162.0	114.8	103.9	88.9	88.9
Electricity generation – MWh (gross)	580,829	524,601	442,789	315,105	264,529
Electricity generation – MWh (net)	464,607	400,007	360,007	293,881	245,113
Electricity generation – MWh (net)					
British Columbia	175,481	154,919	114,040	48,238	44,432
Alberta	214,832	173,257	175,595	181,690	140,536
Ontario	74,294	71,831	70,372	63,953	60,145
Hydroelectric	307,367	282,605	238,509	171,933	147,328
Wind	125,014	117,115	119,222	118,660	80,507
Biomass	32,226	287	2,276	3,288	17,278
Electricity generation sold under long-term contract	85%	87%	85%	82%	84%
Average price received (\$/MWh)	62.20	59.27	60.17	57.15	63.68
STOCK MARKET					
Price range (\$ per share)					
High	6.00	3.70	2.48	2.78	3.45
Low	3.25	2.10	1.60	1.80	1.75
Close	5.83	3.39	2.20	2.24	2.05
Volume (shares)	17,116,100	9,909,238	6,361,800	5,730,891	12,329,250

¹ Before changes in non-cash working capital² Cash flow from operations¹ per share (diluted) is provided to assist management and investors in determining the cash flow from operations¹ on a per share basis and does not have any meaning prescribed in Canadian generally accepted accounting principles and may not be

comparable to similar measures provided by other companies.

³ The ratio of cash flow from operations¹, plus current tax expense and interest on long-term debt to average capital assets, excluding construction-in-progress.



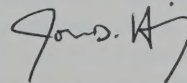
Teamwork is working
together - even
when apart.

Environmental stewardship is the foundation upon which we have built our business. It is the framework of the vision and planning that will carry our company into the future. For Canadian Hydro, environmental stewardship is not only the secret to our success, it is a way of life. We believe that environmental stewardship begins with the health and safety of our employees, extends to our community, and leads to the prevention of pollution.

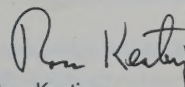
Our commitments to our employees, our community and the environment are of utmost importance. These commitments are reflected in our guiding principles:

- We strive to meet or surpass all legislative, regulatory and other adopted requirements;
- We fully integrate health, safety and environmental considerations into corporate planning exercises and operational activities;
- We strive to continually improve our performance through achieving and advancing health, safety and environmental objectives and targets, including pollution prevention;
- We undertake all our activities in a manner that identifies, assesses and manages all health, safety and environmental risks;
- We engage communities, governments and other stakeholders in meaningful dialogue to address health, safety and environmental concerns; and
- We advance our ideals through implementation of an effective and efficient health, safety and environmental management system.

By ensuring safe operation of our facilities, promoting environmental stewardship, and creating value for our customers and shareholders, we will continue to build a sustainable business for the long-term.



John D. Keating,
Chief Executive Officer



Ross Keating,
President and Chief Operating Officer

SUMMARY OF COMPANY

OPERATIONS

2005 vs. 2004 Electricity Generation – by Province and Technology

	Size (MW) ¹	Electricity Generation – MWh ¹		Change
		2005	2004	
British Columbia	57.5	175,481	154,919	+ 13%
Alberta	90.4	214,832	173,257	+ 24%
Ontario	14.1	74,294	71,831	+ 3%
Totals	162.0	464,607	400,007	+ 16%
Hydroelectric	86.2	307,367	282,892	+ 9%
Wind	50.8	125,013	117,115	+ 7%
Biomass	25.0	32,227	-	-%
Totals	162.0	464,607	400,007	+ 16%

¹ Reflecting CHD's net interest.

Canadian Hydro Developers, Inc. (CHD or the Company) owns and operates twelve hydroelectric, four wind, and one biomass power plants in the Canadian provinces of British Columbia, Alberta and Ontario. The Company exited the year with 162 MW of generation capacity and 407 MW (net) of planned construction projects, an achievement realized only through teamwork. All seventeen of CHD's water, wind, and biomass plants have been certified or are slated for certification under Environment Canada's "Environmental Choice"[™] program as EcoLogo[™] Certified emissions-free energy sources.

NEW PLANT ACTIVITY

Misema Hydroelectric Plant (3.2 MW) - Ontario

Acquired by CHD in January 2005, this plant started up in the spring of 2003 and is located on the Misema River, north of New Liskeard, near the Company's Ragged Chute Hydroelectric Plant. Misema generates approximately 13,300 MWh per year of electricity, which is sold on a

spot basis into the Ontario market, and Renewable Energy certificates (RECs). This plant is EcoLogo[™] certified.

Grande Prairie EcoPower[®] Centre (GPEC) (25 MW) - Alberta

On June 21, 2005, this \$64.9 million, 25 MW, biomass cogeneration plant commenced commercial operations. The GPEC plant is expected to generate 155,000 MWh of energy and RECs in 2006. All of the power, the majority of the RECs and steam heat are sold under various long-term sales contracts ranging from 13 years to the life of the project. EcoLogo[™] certification is currently in progress.

Upper Mamquam Hydroelectric Project (25 MW) - B.C.

On July 23, 2005, the 25 MW Upper Mamquam Hydroelectric Plant commenced commercial operations. Located on the Mamquam River, near the Squamish area just one hour north of Vancouver, this run-of-river hydroelectric project consists of an intake, 1,550 metres of buried steel penstock, including a 150 metre tunnel section, and a



powerhouse with two horizontal Francis turbines. This \$38.9 million plant will generate approximately 98,200 MWh per year of power and RECs, which have been contracted for 20 years to B.C. Hydro. EcoLogo[™] certification for this plant is currently in progress.

CONSTRUCTION PROJECTS

Melancthon I Wind Project (67.5 MW) - Ontario

With construction substantially complete and commissioning commenced prior to year end, the Melancthon I Wind Project is expected to become commercially operational in March 2006. The expected capital cost of this project is \$126 million. Located in Melancthon Township near Shelburne, one hour northwest of Toronto, this plant consists of 45, 1.5 MW GE Wind turbines which will generate approximately 194,800 MWh per year of power and RECs, which have been contracted for 20 years to the Ontario Power Authority (OPA), an agency of the Ontario Government. The Company plans to have this plant EcoLogo[™] certified upon completion.

Melancthon II Wind Project (132.0 MW) - Ontario

Construction of the Melancthon II Wind Project is expected to commence in the spring of 2006 following completion of Melancthon I, with anticipated start up in the spring of 2007. With an expected capital cost of \$265 million, Melancthon II will consist of 88, 1.5 MW GE Wind turbines and is expected to generate approximately 350,000 MWh per year of power and RECs contracted for 20 years to the OPA. The Company plans to have this plant EcoLogo[™] certified. Regulatory approvals and debt financing are required prior to proceeding.

Wolfe Island Wind Project (197.8 MW) - Ontario

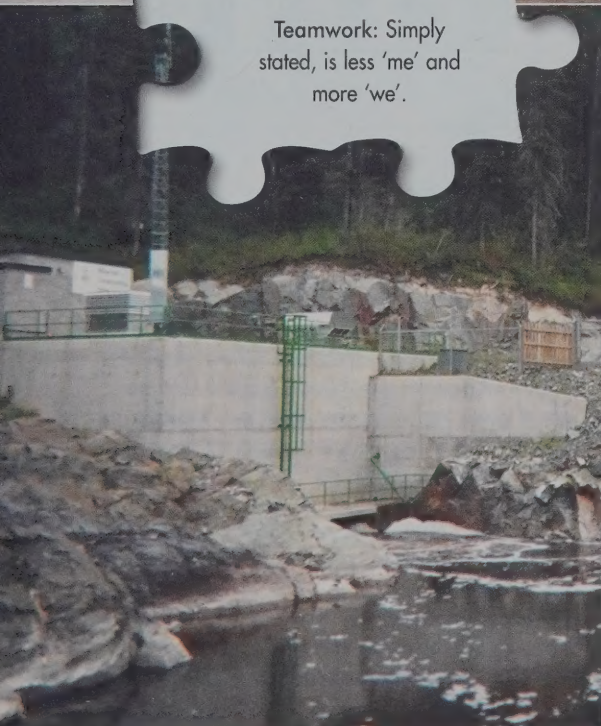
Located near Kingston, construction of the Wolfe Island Wind Project is expected to commence in the spring of 2007 with anticipated start up in October 2008. At an expected cost of \$410 million, this plant will generate approximately 537,000 MWh per year of power and RECs which have been contracted for 20 years to the OPA. The Company plans to have this plant EcoLogo[™] certified. Regulatory approvals and debt financing are required prior to proceeding.

Island Falls Hydroelectric Project (20 MW; 10 MW net to CHD) - Ontario

Located on the Mattagami River near Timmins, this run-of-river hydroelectric project will consist of an intake,



Teamwork: Simply stated, is less 'me' and more 'we'.



powerhouse, weir, spillway and tailrace. Island Falls is expected to generate 93,000 MWh (46,500 MWh net to CHD) per year of power and RECs, which have been contracted to the OPA for 20 years. Construction on this \$64 million (\$32 million net to CHD) project is expected to commence in the spring of 2007 with anticipated completion in October 2008. Regulatory approvals and debt financing are required prior to construction.

DEVELOPMENT PROSPECTS

Blue River Hydroelectric Prospects (70 MW) - B.C.

Located in the B.C. interior, near Valemont, north of Kamloops, the Company is currently obtaining regulatory approvals for up to 10 run-of-river hydroelectric prospects, ranging in size from 3 MW to 20 MW. These prospects are, generally, easily accessible, located close to transmission, have natural fish barriers or are non-fish bearing, and are located in close proximity to each other. At an expected aggregate cost of \$145 million, these prospects, when developed, will generate approximately 242,000 MWh per year of power and RECs. The Company plans to bid some of these prospects into BC Hydro's call for 2,700,000 MWh of power in April 2006. Regulatory approvals, long-term power sales contracts and financing are required prior to proceeding with any of these prospects.

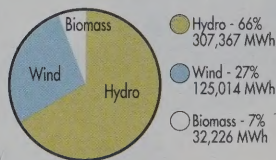
Crazy Creek Hydroelectric Prospect (10 MW) - B.C.

Located near the Company's Pingston and Akolkolex Hydroelectric Plants, this prospect has an expected cost of \$19 million and will generate approximately 31,000 MWh per year of power and RECs when developed. The Company plans to bid this prospect into BC Hydro's call for 2,700,000 MWh of power in April 2006. The Company is currently obtaining regulatory approvals, which along with a long-term power sales contract and financing, are required prior to proceeding.

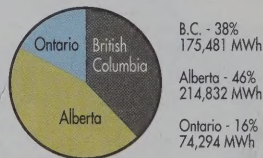
English Creek Hydroelectric Prospect (5 MW) - B.C.

Located near the Company's Pingston and Akolkolex Hydroelectric Plants, the Company is currently obtaining regulatory approvals for this prospect. At an expected cost of \$10 million, this prospect will generate approximately 18,000 MWh per year of power and RECs when developed. The Company plans to bid this prospect into BC Hydro's call for 2,700,000 MWh of power in April 2006. Regulatory approvals, long-term power sales contract and financing are required prior to proceeding.

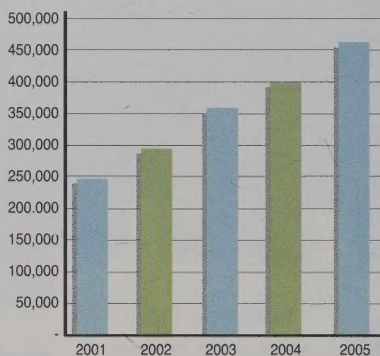
2005 Generation By Technology



2005 Electricity Generation By Province



Electricity Generation (MW net)



Melancthon III Wind Prospect (40 MW) - Ontario

The Company has additional land options and wind resource monitoring supporting up to an additional 40 MW phase of the Melancthon Wind Project. With an expected cost of approximately \$80 million, this wind prospect will generate approximately 105,000 MWh per year of power and RECs when developed. Regulatory approvals, long-term power sales contracts and financing are required prior to proceeding.

Sinnott Infill (52 MW), St. Henry's (72 MW), Cyr's Ridge (18 MW) Wind Prospects - Alberta

CHD has optioned land with owners for these potential ideal wind sites located in southern Alberta, which will allow for the development of up to three wind plants. The

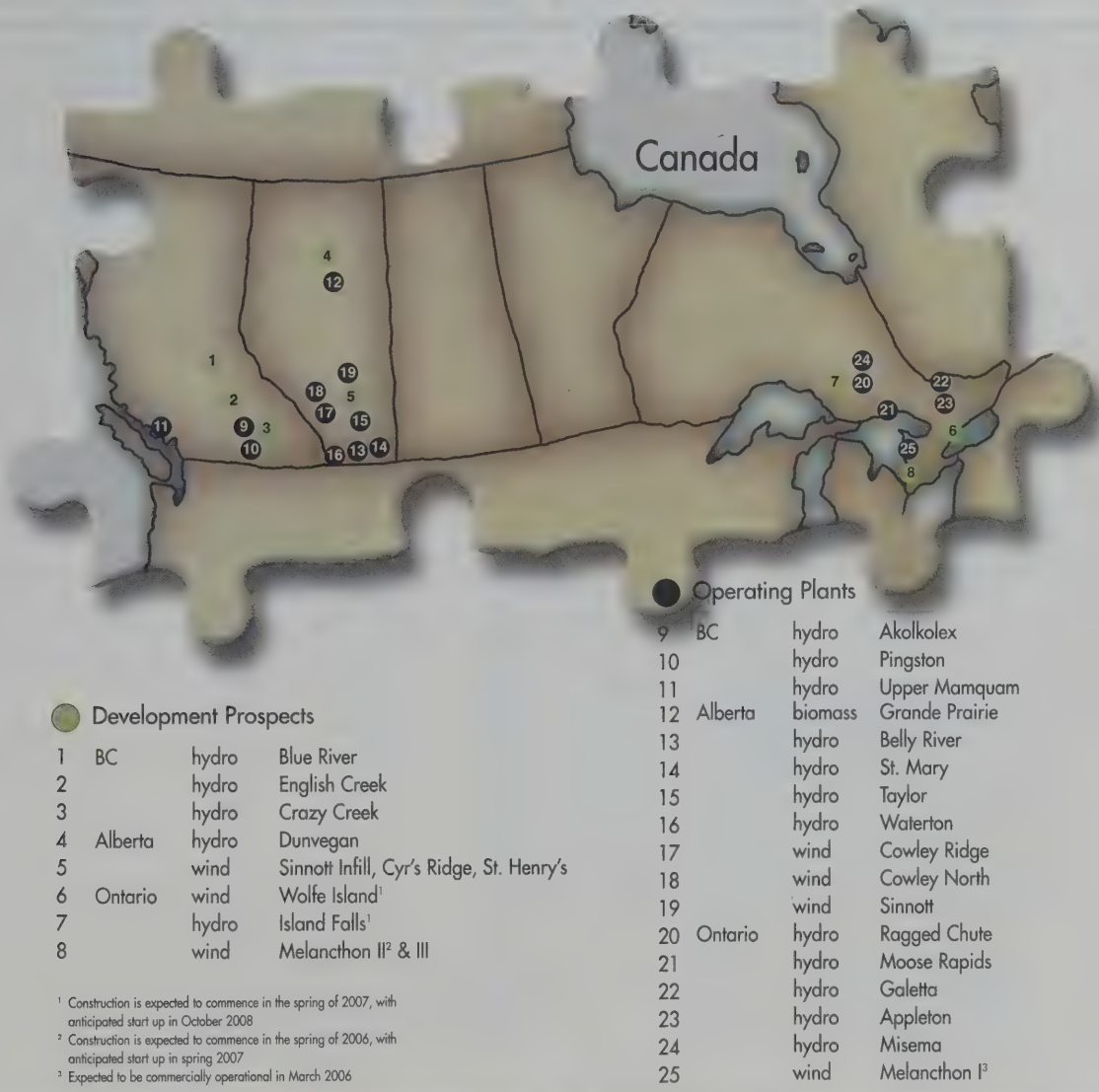
Company continues to monitor the wind resource and plans to permit these sites in order to ensure it can take advantage of any potential long-term power sales contracts once interconnection upgrades are carried out in the area, which is expected by 2007. In addition to regulatory approvals, transmission upgrades and long-term power sale contracts, financing is required prior to proceeding with any of these prospects.

Dunvegan Hydroelectric Prospect (100 MW) - Alberta

Dunvegan is designed as a low-head, run-of-river hydro plant in northwestern Alberta on the Peace River. Due to the size and flow of the river, this plant is expected to generate approximately 600,000 MWh per year of

power and RECs, when developed, and take two years to construct. With recent cost escalation in the province of Alberta, the Company expects a capital cost for this project in the order of \$300 million.

In 2005, CHD completed a two-year physical modeling program on the plant for fish passage, to the satisfaction of the Federal Department of Fisheries and Oceans. The Company expects to submit its application to the joint Alberta Energy and Utilities Board and Natural Resources Conservation Board panel by spring 2006, with a possible hearing date of late fall 2006, and a regulatory decision in the first half of 2007. Regulatory approvals, long-term power sale contracts and financing are required prior to proceeding.



¹ Construction is expected to commence in the spring of 2007, with anticipated start up in October 2008

² Construction is expected to commence in the spring of 2006, with anticipated start up in spring 2007

³ Expected to be commercially operational in March 2006

Operating Plants, Construction Projects & Development Prospects

OPERATING PLANTS

Province	Type	Plant	Capacity (MW)	Ownership	Power Purchaser	Estimated Long-Term Average Generation (GWh)	Contract Expiry
B.C.	hydro	Akolkolex	10.0	100%	BC Hydro	52.7	Apr 1, 2015
	hydro	Pingston	45.0	50%	BC Hydro	178.0	May 7, 2023
	hydro	Upper Mamquam	25.0	100%	BC Hydro	98.2	July 22, 2025
Alberta	hydro	Belly River	3.0	100%	TransAlta	12.0	Mar 28, 2011
	hydro	Waterton	2.8	100%	TransAlta	12.4	Nov 6, 2012
	hydro	St. Mary	2.3	100%	TransAlta	12.6	Dec 10, 2012
	hydro	Taylor	13.0	50%	Spot	44.2	n/a
	wind	Cowley Ridge	21.4	100%	TransAlta/spot	55.0	Dec 31, 2013/ Aug 2, 2014
	wind	Cowley North	19.5	100%	ENMAX/spot	47.6	Dec 31, 2006
	wind	Sinnott	6.5	100%	ENMAX/spot	15.4	Dec 31, 2006
	wind	Taylor	3.4	100%	Spot	6.6	n/a
	biomass	Grande Prairie					
		EcoPower® Centre	25.0	100%	Alberta Infrastructure/ Canfor/City of Grande Prairie	162.7	Dec 31, 2024/ Apr 30, 2019/ Dec 31, 2019
Ontario	hydro	Ragged Chute	6.6	100%	OEFC ¹ /CNEC ²	36.1	Mar 7, 2006/ Mar 31, 2011
	hydro	Moose Rapids	1.3	100%	OEFC ¹	5.7	Nov 13, 2027
	hydro	Appleton	1.4	100%	OEFC ¹	6.6	Mar 1, 2024
	hydro	Galletta	1.6	100%	OEFC ¹	7.9	Jan 15, 2009
	hydro	Misema	3.2	100%	Spot	13.3	n/a
Operating Projects		100% share	191.0			767.0	
		Company share	162.0			655.9	

CONSTRUCTION PROJECTS

Ontario	wind	Melancthon I ³	67.5	100%	OPA ⁴	194.8	2026
	wind	Melancthon II ⁴	132.0	100%	OPA ⁴	350.0	2027
	wind	Wolfe Island ⁶	197.8	100%	OPA ⁴	537.0	2028
	hydro	Island Falls ⁵	20.0	50%	OPA ⁴	93.0	2028
Construction Projects		100% share	417.3			1,174.8	
		Company share	407.3			1,128.3	

DEVELOPMENT PROSPECTS

B.C.	hydro	Blue River	70.0	100%	Pursuing	242.0	
	hydro	Crazy Creek	10.0	100%	Pursuing	31.0	
	hydro	English Creek	5.0	100%	Pursuing	18.0	
Alberta	hydro	Dunvegan	100.0	100%	Pursuing	600.0	
	wind	Sinnott Infill	52.0	100%	Pursuing	n/a	
	wind	St. Henry's	72.0	100%	Pursuing	n/a	
	wind	Cyr's Ridge	18.0	100%	Pursuing	n/a	
Ontario	wind	Melancthon III	40.0	100%	Pursuing	105.0	
Development Prospects		100% share	367.0			996.0	
		Company share	367.0			996.0	
Operating, Construction & Development		100% share	975.3			2,937.8	
		Company share	936.3			2,780.2	

¹ Ontario Electricity Finance Corporation

² Constellation New Energy Canada, Inc.; new contract signed for Ragged Chute hydroelectric plant effective April 1, 2006

³ Expected to be commercially operational in March 2006

⁴ Ontario Power Authority

⁵ Construction is expected to commence in the spring 2006, with anticipated start up in spring 2007

⁶ Construction is expected to commence in the spring 2007, with anticipated start up in October 2008

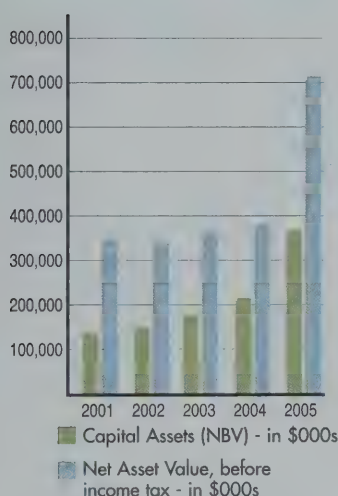
INDEPENDENT ASSET

EVALUATION

McDaniel & Associates Consultants Ltd., a highly respected independent firm of engineers, has evaluated each CHD plant as of January 1, 2006. The purpose of engaging McDaniel & Associates is to provide investors and shareholders with third party confirmation of future cash flow estimates.

Using the McDaniel & Associates results, management has prepared the following "pre-tax net asset value" (as opposed to "fair market value") of the Company's fully diluted common shares outstanding. Value has been computed assuming an 8% discount factor on future cash flows of the Company's 17 generating plants, projects under construction and certain development prospects.

Revenues can be predicted with some degree of reliability since the Company has, to varying degrees, sold forward approximately 85% of its output under long-term sales contracts. Using the discounted cash flows determined by the independent engineers, adjustments for long-term debt, working capital, other liabilities and equity that would be received from potential exercise of warrants and options (to account for full dilution), have been made. The Company estimates that income taxes will not be payable for several years as substantially all the Company's tax pools are represented by accelerated tax write-off classes.



DISCOUNTED CASH FLOW, NET OF OPERATING EXPENSES (PRE-TAX):

8% Discount
(in \$ millions, except per share)

McDaniel & Associates evaluation⁽¹⁾:

Operating plants and projects under construction ⁽²⁾	674.3
Development prospect, risked at 50% ⁽³⁾	86.5
Working capital deficit	176.1
Long-term debt, excluding current portion ⁽⁴⁾	(224.9)
Potential exercise of options	9.5
Net Asset Value, before income tax	721.5
Per Share ⁽⁵⁾	\$ 5.89

- (1) The following assumptions were used by McDaniel & Associates in preparing its evaluation: (1) electricity prices were determined using either a contractually-determined price specific to each plant or a forecast of the average electricity spot price specific to each of the three provinces in which the Company operates where no contracts are in place or expire; (2) the forecast of the average electricity spot price was based on McDaniel & Associates' opinion on future natural gas and electricity prices at January 1, 2006; (3) electricity generation from each operating plant was primarily based on historical annual averages. For plants without sufficient operating history, generation was based on data provided by the Company, which, in turn, was derived from independent studies; (4) estimates of applicable operating costs were primarily based on historical annual average costs; (5) estimates of sustaining capital were based on historical annual average costs and estimates provided by management; (6) overriding royalties, water rentals, property taxes and lease rentals were estimated based on the applicable contracted or legislated rates; (7) capital related to projects either under construction, nearing construction or under development were provided by management; and (8) applicable electricity prices, operating costs, sustaining capital, water rentals and property taxes were escalated at 2.5% per annum, unless otherwise prescribed by contract or legislation.
- (2) Includes the Melancthon I Wind Plant which is expected to be commissioned in March 2006, as well as certain projects that are slated for construction commencing in 2006/2007 (Melancthon II Wind, Wolfe Island Wind, and Island Falls Hydroelectric Projects). Assumes \$nil terminal value.
- (3) Development prospect, which is comprised of the Durvegan Hydroelectric Prospect, is risk adjusted by 50% of the estimated future cash flows plus the applicable discount rate. Assumes \$nil terminal value. No value has been attributed to other prospects, namely: Melancthon III, Simcoe Infill, Cyr's Ridge and St. Henry's Wind, Blue River, English Creek and Crazy Creek Hydroelectric Prospects.
- (4) Assumes full repayment of debt, as opposed to the Company's anticipated 65% leverage on capital, with 10-year debt, principal due upon maturity.
- (5) Based on 122,506,023 fully diluted shares outstanding at December 31, 2005. Excluding Durvegan, the pre-tax net asset value would be \$5.18 per share using an 8% discount rate.

THE MELANCTHON I WIND PROJECT

A team approach to
development ensures success.

With all of Canadian Hydro Developers, Inc.'s projects, the planning process begins many months - sometimes years - before construction begins. Initially, it may be an individual or small team of people who have an idea and delve into the research and analytical phases of a prospective project. Then, as the concept develops and benchmarks are reached, additional personnel join the team. And, on Canadian Hydro's team, no-one ranks more significant than any other - everyone has a voice and everyone's opinion matters.

The Melancthon I Wind Project, a 67.5 MW plant in southern Ontario, is a superb example of how Canadian Hydro applies the teamwork approach to development, using not only the Company's talented employee pool, but also human resources and expertise from government, industry and the community.

A 'Foursome' with Foresight

Geoff Carnegie, Manager of Ontario Projects, explains that the idea of constructing a wind power project in southern Ontario was initially conceived by four locally based Ontarians who had formed a partnership called Chinodin Enterprises.

It was generally known that Melancthon Township was among the highest elevation in Ontario and, as a result, could have tremendous potential for wind power. Chinodin spent a couple of years setting up meteorological towers, to better understand the wind resource in the area, and did the initial option agreements with some area landowners. They took the project to a point that their experience and budget would allow, and then they approached Canadian Hydro to carry the ball forward. After careful analysis to ensure its viability, Canadian Hydro acquired the project in April 2004.

continued on page 14



Dwight Duncan, then Ontario Minister of Energy, and Tony Valeri, former Leader of the Government, the House of Commons, at the September 2005 official "bolt tightening" ceremony.



"On Canadian Hydro's team, no-one ranks more significant than any other - everyone has a voice and everyone's opinion matters."



Melancthon Wind Project Fast Facts & Stats

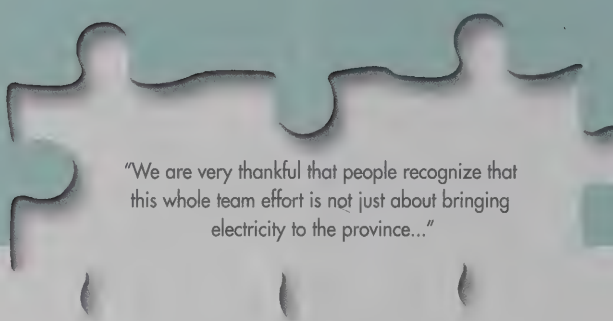
Once the Melancthon I and II Wind Projects are completed, the wind plant will be the largest of its kind in Ontario. With a total of 133, 1.5 MW wind turbines, it will have a total generating capacity of 199.5 MW and be the second largest wind plant in the nation.

Melancthon I

With 45, 1.5 MW wind turbines strategically placed over 2,500 hectares in the southern part of Melancthon Township, this part of the project will have an installed capacity of 67.5 MW of renewable power. All 45 turbines are now erected, with an anticipated in-service date of March 29th, 2006 - or sooner - if the remaining construction and commissioning activities proceed at their current rate.

Melancthon II

The Government of Ontario awarded Canadian Hydro a second Renewable Energy Supply Contract for Melancthon II in November 2005. Once completed, it will boast another 88, 1.5 MW wind turbines spread over 14,600 hectares, for a total generating capacity of 132 MW. Regulatory approvals and financing are underway, with construction anticipated to commence in spring 2006. All turbines should be in full operation by the spring of 2007.



"We are very thankful that people recognize that this whole team effort is not just about bringing electricity to the province..."

During that spring and summer, Canadian Hydro continued to build a project team of both internal and external personnel, worked with community stakeholders, and expeditiously engaged federal, provincial and municipal governments to ensure the necessary permits and approvals were in place with plans to begin construction in the summer of 2005.

Building Momentum

"An integral part of the process involved applying to the Township to have valuable farmland re-zoned for 'agricultural-exception' - to permit wind-turbine-related facilities," explains Ross Keating, COO. "We did not want to hinder the landowners' ability to continue to farm... to do what he or she had been doing long before we came along. While this necessitated approval from government, the Canadian Hydro team made sure that there was also consensus and approval from individuals in the community. The Company hosted a series of town hall-style information sessions, where individuals had an opportunity to come forward, ask questions, discuss issues, and receive direct answers from the Company."

"Team members also met one-on-one - around the kitchen tables of area landowners," adds Gavin Lowe, Manager, Wind Division. "We talked to many individuals about the placement of turbines, access roads and power lines. We also allocated a significant amount of resources to ensure that the potential effects to birds, wildlife, and vegetation, as well as agricultural and archaeological resources were minimized or avoided entirely. Canadian Hydro also worked with landowners and conservationists to ensure that the wind turbines would not be located too close to wetland areas and that the breeding and migratory flight patterns of birds would be taken into consideration.... And we've kept these commitments."

"We also set up a Stakeholder Liaison Committee," says Carnegie. "It was comprised of a cross section of community representatives, including neighbours, business owners, stakeholder organizations, and members of the public. Their role was to provide input into project issues and identify items they felt needed study, and to act as an additional liaison and facilitators of communication between stakeholders and the Company. The end result, the Committee added significant value to the planning process and positively enhanced the overall nature of the project."

Road to Completion

The teamwork paid off - handsomely. In November that same year, Canadian Hydro Developers was awarded a 20-year, 67.5 MW Renewable Energy Supply Contract from the Government of Ontario for the Melancthon I Wind Project. "We now had a credit-worthy buyer for our renewable power and that put us on the fast track for construction," says Carnegie.

Construction started in summer 2005, the official 'bolt tightening' was held in September, and final commissioning is set for Q1 2006. With luck, good weather, and a continued strong team spirit, the rotors on the first set of turbines will start officially harvesting the wind in March 2006.

Credit Where Credit is Due

While Canadian Hydro sees the Melancthon Wind Project as one of their most significant achievements to date, the Company recognizes that its success is due, in no small part, to the support of its stakeholders. It was a determined and talented team that has made the project possible.

continued on page 16





Support of Melancthon Wind Projects Nets Mayor 'Newsmaker of the Year' Honours

In January 2006, the Orangeville Citizen Community Newspaper named Melancthon Township Mayor, Garry Matthews, as their publication's 'Newsmaker of the Year' for 2005. The honour was bestowed on Matthews for his supportive efforts in placing Dufferin County and the Melancthon Township on the international energy map.


A recent article about his award explained how he was 'a driving force in bringing the wind power project to his community', but he had no concept of the eventual scale of the project, except to the extent that he knew that the province of Ontario was (and still is) looking for alternative sources of electrical energy.

In discussing the Melancthon I and II Wind Projects, Mayor Matthews credited Canadian Hydro Developers, Inc. for their teamwork and professionalism saying, "No-one could ask for a more cooperative organization than CHD, all the way from the top management to the construction crews. They have been very good to work with."

Matthews said he was also duly impressed with the company's commitment to use a minimum amount of cropland for both the wind turbines and the access roads, and that CHD went to great lengths to consult with individuals in the community that would be affected by each turbine's placement.

Reprinted with permission of the Orangeville Citizen





"They're excited about the project, eager to learn how it will positively impact the community, and have demonstrated foresight, leadership, and commitment to renewable energy generation in their area."

"The Ontario government's willingness, for example, to support renewable power development was essential to our success. Their support is a reflection of both their willingness to think outside the box and their need for significant new electricity generating capacity," concludes Keating. "They've responded with policy and legislative changes that encourage investment in low-impact renewable energy projects."

"The Federal government is also an important team player," adds Lowe. "New initiatives, like the Wind Power Production Incentive (WPPI) and the proposed Renewable Power Production Incentive (RPPI), that provide revenue incentives for wind power and other renewable power sources, respectively, have also played a key role in our ability to expand our generating capacity."

Carnegie says that the people of Melancthon and Amaranth Townships and the Centre Dufferin District High School in Shelburne have also been exceptional to work with. They're excited about the project, eager to learn how it will positively impact the community, and have demonstrated foresight, leadership, and commitment to renewable energy generation in their area.

"We are very thankful that people recognize that this whole team effort is not just about bringing electricity to the province," concludes Carnegie. "Canadian Hydro will have an on-going investment in the community, through taxes, royalty payments, the on-going need for services and supplies, and by providing employment. What's equally important, is that the royalties from the wind turbines will allow many farmers to stay on the land and continue with agricultural operations where, otherwise, the future may not have looked so bright." ♦

DISCUSSION & ANALYSIS

The following MD&A, dated February 3, 2006 (with the exception of the 'Outstanding Share Data', which is dated February 13, 2006), should be read in conjunction with the audited consolidated financial statements as at and for the years ended December 31, 2005 and 2004 (the "Financials") and related Notes included in this Annual Report. All tabular amounts in the following MD&A are in thousands of dollars, unless otherwise noted, except share and per share amounts.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report, constitute forward-looking statements. These statements relate to future events or Canadian Hydro Developers, Inc.'s (the "Company" or "CHD") future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Annual Report should not be unduly relied upon. These statements speak only as of the date of the MD&A contained in this Annual Report. CHD does not intend, and does not assume any obligation, to update these forward-looking statements.

BUSINESS OF THE COMPANY

CHD is a developer, owner and operator of 17 generating facilities totaling 162.0 MW net to the Company's interest located in British Columbia, Alberta, and Ontario:

- 12 certified "run of river" hydroelectric plants, EcoLogo[®] certified or in process of EcoLogo[®] certification;

- Four EcoLogo[®] certified wind plants; and
- One biomass plant, currently in process of EcoLogo[®] certification.

At year end, CHD was completing construction of the \$126 million, 67.5 MW Melancthon I Wind Project ("Melancthon I"), which is expected to achieve commercial operations in March 2006, slightly ahead of schedule.

CHD was engaged in the development of the following projects at and subsequent to year end:

- The \$265 million, 132.0 MW Melancthon II Wind Project ("Melancthon II") that is expected to start construction in the spring of 2006 and be commissioned in the spring of 2007;
- The \$410 million, 197.8 MW Wolfe Island Wind Project ("Wolfe Island") expected to commence construction in the spring of 2007 with anticipated start-up by October 2008; and
- The \$64 million (\$32 million net to CHD's interest) Island Falls Hydroelectric Project ("Island Falls") that is expected to start construction in the spring of 2007 and be commissioned by October 2008.

All three projects have been awarded 20-year power purchase agreements ("RES II Contracts") with the Ontario Power Authority ("OPA"), an agency of the Ontario government, for the purchase of electricity and Renewable Energy Certificates ("RECs").

CHD has up to an additional 367.0 MW of renewable energy projects that are in various stages of permitting for construction in the next several years.

VISION, CORE BUSINESS AND STRATEGY

The Company's 10 year vision, which was set in early 2002, is to be the premier independent producer of green power in Canada focusing on environmental stewardship and growth, empowering employees, and providing attractive returns to investors.

CHD is the only company in Canada that provides a diversified suite of EcoLogo[®] certified, low-impact, renewable power from economic projects. The Company wants to capitalize on the demand for green power and the economics that present themselves today, while encouraging an entrepreneurial spirit and ensuring its future. CHD's five-year goal was to exit 2006 with 300 MW of green power plants in production and have an inventory of active prospects of at least 500 MW to foster future growth.

Melancthon I, which is expected to achieve commercial operations in March 2006, increases CHD's net installed capacity to 229.5 MW. CHD expects to exceed its 300 MW target with the completion of Melancthon II, which will bring the Company's capacity to 361.5 MW. The achievement of this goal will be in the spring of 2007, only a few months short of the original 2006 year end target. With the award of three RES II Contracts in November 2005 by the OPA, the Company anticipates total net installed capacity by the end of 2008 of 569.3 MW, representing growth of more than 250% over the current year. In addition to the 407.3 MW of projects for which long-term power purchase agreements have been signed, the Company has 367.0 MW of active prospects in development. The Company is currently in the process of creating a new five-year plan with continued focus on a stable asset base and supported future growth.

KEY PERFORMANCE DRIVERS

CHD believes the following key performance drivers are critical in creating value for its investors:

- Price of power and liquidity of market, which is driven by growth of population and economy, as well as the price of fossil fuels, particularly, natural gas.
- Trend towards concern for the environment and environmental stewardship, which drives demand for low-impact, renewable power.
- Interest rates and access to equity, which affect the cost of capital and economic rate of return on projects.
- Weather, which impacts both hydroelectric and wind generation, as well as the overall demand for power.
- Effect of non-market forces such as government incentives for renewable energy, regulatory changes, and the Kyoto Protocol, which create

market uncertainty and affect the ability to operate, as well as the economic rate of return on power plants.

- Reputation, which drives ability to access capital.

There are several key performance measures the Company uses to monitor and assess its performance relative to the key performance drivers, the implementation of its strategy, and the achievement of its goals and vision. The main performance measures are as follows:

- Rate of return on power plants. This is defined as the unlevered, pre-tax rate of return on individual power plants above a certain hurdle rate set by CHD, which rate is not disclosed for competitive reasons.
- Return on average capital employed ("ROACE"). This is defined as the ratio of cash flow from operations before changes in non-cash working capital, plus current tax expense and interest on long-term debt to average capital assets, excluding construction-in-progress. CHD targets a 10-15% ROACE depending upon the year and when projects under construction are anticipated to be operational.
- Mixture of debt and equity. The Company currently targets a 65/35 debt/equity mixture, which it believes is an appropriate mix given the current economic conditions in Canada, the growth phase of the Company, and the long-term nature of its assets.
- Installed MW capacity growth. This is defined as installed megawatts in operation at year end compared to the previous year. The Company is currently in the process of developing a new five-year plan with annual growth targets, however, CHD expects to exit 2008 with a capacity growth of 407.3 MW, representing net installed capacity of 569.3 MW.
- Generation growth. This is defined as the increase in megawatt hours of electricity production in the current year compared to the prior year. In conjunction with MW capacity growth, the Company sets production targets for each year.
- Percentage of generation under long-term contract. This is defined as the percentage of total electrical generation subject to contracts having an initial term of at least five years, and the purchaser of the power having an acceptable financial rating. The Company currently targets 75% of generation under long-term contract, which ensures steady, predictable, and long-term cash flow.
- Active prospects. This is defined as new projects that, generally, meet the Company's evaluation criteria of being Clean, Simple & Sound[®].

- Technological and geographical diversification. By having an appropriate mix of low-impact, renewable power plants, located in different parts of the country, CHD reduces its exposure to large overall variations in power generation.
- The Company has developed a “non-market forces” plan to ensure potential changes to regulations and laws that affect the power industry are known, understood, and managed to the extent possible. This plan also focuses the Company on the promotion of renewable energy with various levels of government.
- Environmental stewardship and safety. The Company has an environment, health and safety management policy. Targets and objectives are set within that policy.

CAPABILITY TO DELIVER RESULTS

Non-Capital Resources

Employees are the most critical non-capital resource required in order for the Company to achieve its goals set out in its strategic plan. A formal human resource plan has been developed in order to ensure the Company focuses on improving and maintaining its employee morale. As part of this plan, CHD assesses its staffing levels on an ongoing basis in order to determine if levels are adequate and accountabilities are assigned. In addition, a succession plan has been developed should a key employee retire or leave the Company. During 2005, the Company hired twelve new employees and has plans to hire additional employees in 2006 for the management of large new construction projects and the operation of new power plants. During the year, the Company also implemented a new performance management process designed to align employee and organizational goals. With these plans in place, CHD believes it has sufficient human resources to execute its strategic plan.

Capital Resources

The Company has the necessary working capital to meet its current obligations and commitments, and has no off-balance sheet financing arrangements. As at December 31, 2005, Melancthon I was under construction and fully financed. This plant is expected to achieve commercial operations in March 2006.

The Company's future construction projects will be financed as follows:

	Equity ¹	Other Funds ²	Credit Facilities ³	Total
	\$	\$	\$	
Melancthon II	92,800	-	172,200	265,000
Wolfe Island	85,400	58,100	266,500	410,000
Island Falls ⁴	2,000	4,400	25,600	32,000
Total contractual obligations	180,200	62,500	464,300	707,000

¹ Equity was raised from a public offering in December 2005. Up to the equity amounts listed above will be used to fund a portion of the construction costs for Wolfe Island and Island Falls.

² Expected cash flow to be generated by the Company and potential future equity offering prior to commencement of construction in the spring of 2007.

³ The credit facilities for Melancthon II and Wolfe Island are expected to be similar in nature to the Company's existing credit facility for Melancthon I. Closing of credit facilities is expected to occur prior to or shortly after construction commencement.

⁴ Represents the Company's net interest in Island Falls.

Systems and Processes

In 2005, the Company re-evaluated its systems and processes that were largely put in place in 2002 and determined that the current infrastructure did not provide for future growth beyond the Company's current strategic plan. As CHD will significantly exceed its current strategic plan with its current slate of construction projects, the Company, with the assistance of independent consultants, designed and implemented a new network infrastructure with a focus on the security of systems and processes. In addition, the Company is currently in the process of implementing a maintenance and capital management system. Combined, CHD has developed a solid platform for information systems going forward enabling future growth for the Company.

Disclosure Controls

Disclosure controls and procedures encompass both financial and non-financial information and any communications the Company has with external parties. The Company has evaluated the design and effectiveness of its disclosure control framework. Based on this evaluation, the Company has concluded that the disclosure controls and procedures are effective as of December 31, 2005.

OVERALL PERFORMANCE

2005 Highlights:

- Attained record generation of 464,607 MWh;
- Positioned the Company for growth in Ontario with the acquisition of up to 400 MW of renewable energy prospects and the 3.2 MW Misema Hydroelectric plant ("Misema") from the all stock purchase of Canadian Renewable Energy Corporation on January 21, 2005;
- Reduced the Company's cost of capital and improved leverage towards targeted levels through a secured, 10-year, \$35 million project private debt placement at 5.281% per annum and an unsecured, 10-year, \$120 million corporate bond offering at 5.334%;
- Achieved an investment grade rating of BBB, with a Stable trend from Dominion Bond Rating Service Ltd.;
- Closed an additional \$100.6 million in unsecured debt financing;
- Achieved commercial operations at the \$64.9 million Grande Prairie EcoPower® Centre ("GPEC") on June 21, 2005;
- Achieved commercial operations at the \$38.9 million, 25 MW Upper Mamquam Hydroelectric Plant ("Mamquam") on July 23, 2005;
- Signed three 20-year renewable energy sales contracts with the Ontario Power Authority for the 132.0 Melancthon II Wind Project, the 197.8 MW Wolfe Island Wind Project, and the 20 MW (10 MW net to CHD) Island Falls Hydroelectric Project in Ontario;
- Neared completion of construction on the 67.5 MW Melancthon I Wind Project near Shelburne, Ontario, which is expected to achieve commercial operations in March 2006;
- Achieved the Company's growth target of adding an additional 53.2 MW of capacity in 2005; and
- Realized higher year over year average price received for electricity from all operations.

The Company's financial condition improved in 2005 compared to 2004 as a result of:

- The record year of operations due to the addition of three new plants in 2005;
- The issuance of 36,925,000 common shares at a price of \$5.10 through a public equity offering completed in December 2005 for total gross proceeds of \$188,318,000;

- Issuance of \$120,000,000 of 10-year unsecured debentures bearing interest at 5.334% through a debt restructuring plan resulting in a lower cost of borrowing to CHD;
- Issuance of \$35,000,000 of 10-year secured debentures bearing interest at 5.281%;
- Issuance of \$100,600,000 in long-term debt financing consisting of an operating facility and a construction facility for Melancthon I of which \$56,600,000 was drawn by CHD at year end; offset partially by:
- Long-term debt repayments of \$61,724,000 and revolving construction lines of credit repayments, net of draws, of \$28,800,000;
- Capital asset additions of \$129,144,000 relating to the completion of GPEC, Mamquam, and Melancthon I; and
- Prospect development costs of \$8,160,000 relating primarily to: preparing for the 2006/2007 construction of Melancthon II, the 2007/2008 construction of Wolfe Island and Island Falls, the development of the Blue River, English Creek and Crazy Creek Hydroelectric Prospects (up to 85 MW), and preparing the Dunvegan Hydroelectric Prospect (100 MW) for its regulatory hearing (see Note 4 to the Financials).

In addition to certain risks, which are explained in the 'Risk Factors' below, the following items impact CHD's business:

Seasonality and Cyclicity

The Company's business is cyclical due to:

- The nature of electricity, which cannot be economically stored;
- The price of uncontracted electricity which fluctuates based on supply and demand; and
- Weather due to CHD's use of wind and water resources for a significant portion of its electrical generation.

The Company reduces its exposure to industry cycles by:

- Entering into long-term contracts for five years or greater for a minimum of 75% of its generation, which reduces the Company's exposure to variable spot power prices; and
- Technological and geographical diversification, which reduces CHD's exposure to any one natural resource in any one region.

The Company sold 85% of its power generation under long-term contracts during 2005. CHD estimates that every \$16/MWh change in average spot ("Pool") prices in Alberta and Ontario for 2006 will have a \$0.01/share (diluted) impact on net earnings, assuming no additional issuances of equity during 2006. In 2006, fluctuations in spot market prices will affect revenues for the Taylor Hydroelectric Plant (6.5 MW net), the Taylor Wind Plant (3.4 MW), Cowley North and Sinnott Wind Plants (26 MW), and Misema (3.2 MW), which sell their power on the spot market.

With GPEC operating at full capacity, the quarterly fluctuations in financial results will be reduced as power is generated from a constant source. While geographical and technological diversification results in smaller quarterly fluctuations in financial results, management expects financial results from the second and fourth quarters to be higher than those from the first and third quarters of 2006.

Trends and Outlook

The commissioning of Melancthon I in March 2006 is expected to positively impact the Company's financial results for 2006, increasing the Company's net capacity by 67.5 MW. The construction of Melancthon II in the spring of 2006, with anticipated start up in the spring of 2007, and the construction of Wolfe Island and Island Falls in the spring of 2007, with expected completion by October 2008, will increase the Company's net installed capacity to 569.3 MW. On an annualized basis, these new plants are expected to generate in aggregate 1,128,300 MWh per year (net to CHD's interest). In addition, the Company has 367.0 MW of active development prospects across three provinces. Many of these prospects are expected to be bid in upcoming calls for power.

While reservoir levels in Alberta are currently at normal to above normal levels, snow accumulations in the mountains that surround the Company's Alberta hydroelectric plants are below average for this time of year. In addition, very warm and wet weather in these mountains during January 2006 has reduced snow packs in the mountains further, but has increased reservoir levels. This has contributed to higher than normal hydroelectric generation for January 2006 in Alberta and is expected to result in average hydroelectric generation for the year.

Precipitation in B.C. has been slightly below normal since October 2005. However, temperatures have been warm,

resulting in average stream flows. Notwithstanding this, snow packs in the mountains surrounding CHD's B.C. hydroelectric plants are currently at below normal to normal levels. This has contributed to normal hydroelectric generation for January 2006 in B.C. and is expected to result in average hydroelectric generation for the year if snow accumulations and spring precipitation are at least normal.

Ontario is currently having a dry winter with below normal precipitation forecasts for the spring, similar to the prior year. However, it is too early to determine whether this will result in hydroelectric generation in Ontario being different in 2006 versus 2005.

Pool prices in 2005 (\$70/MWh) were higher than 2004 (\$55/MWh) due to high natural gas prices, which impact power prices. The average Pool price for January 2006 was \$72/MWh, compared to \$103/MWh for December 2005, and \$50/MWh for the month of January 2005.

Current Market and Industry Outlook

The long-term fundamentals in Alberta continue to require significant additional power generation in the coming years. As the power price environment continues to improve, this may provide opportunities to CHD to obtain long-term contracts for the sale of its electricity from its existing merchant plants and new plants under development. CHD's main focus in Alberta is its Dunvegan Hydroelectric Prospect and, to a lesser extent, its various wind prospects located in southern Alberta. The Company does not anticipate there will be sufficient transmission interconnection for its or any other wind projects in southern Alberta until 2007, when the Alberta Electric System Operator is expected to complete an expansion to transmission in that area.

The potential for new projects in B.C. has been enhanced by BC Hydro's commitment to obtain 10% of any new load growth from "green" sources through the procurement of such power from independent power producers ("IPPs") with long-term power purchase contracts. A new call for tender for 2,700,000 MWh of generation supply was announced by BC Hydro in December 2005, with bids due by April 7, 2006 and long term contracts for the purchase of power awarded by August 4, 2006. The Company expects to participate with a submission of certain of its hydroelectric development prospects in British Columbia. The Company is actively developing new hydroelectric prospects in B.C. due to this policy initiative and planned calls for power by BC Hydro.

Ontario is Canada's largest power market and has evolved into a hybrid market structure using a combination of an hourly, bid-based wholesale market and private supply procured through government-sponsored long-term contracts. Recent government policy provides for significant new generation needs. It is intended that over 7,500 MW of coal-fired generation be phased out by 2009, and a renewable portfolio standard of 10% of supply from renewable generation has been set with a target of 1,350 MW and 2,700 MW of renewable energy being installed in Ontario by 2007 and 2010, respectively. In 2004 and 2005, the Ontario Government awarded 20-year power purchase contracts for 396.5 MW and 975 MW of renewable energy, respectively. Melancthon I was successful under the 2004 award, and Melancthon II, Wolfe Island and Island Falls were successful under the 2005 award. The Ontario Government has announced an additional request for a further 200 MW of renewable energy supply to be awarded in 2006, which the Company anticipates bidding Misema to the call in order to secure a long-term power supply contract. The Company has plans for the development of a future phase of Melancthon and continues to explore development prospects in the province.

CHD is constantly investigating new opportunities primarily in Canada as the electrical industry becomes deregulated and/or openly competitive. The Company's primary objective is to consolidate its position as the leader in low-impact electrical generation in Canada.

Governmental and Environmental Regulation

CHD maintains an insurance program consistent with industry practice to protect against losses due to accidental destruction of assets, pollution and business interruptions. The Company employs an environment, health and safety management system and maintains operational plans for all of its plants to deal with environmental matters. CHD does incur ongoing costs associated with environmental protection requirements on operational plants, which are charged to operating costs as incurred. These costs, however, are nominal.

The majority of financial costs associated with environmental protection requirements are incurred by the Company at the development and construction phases of a power project. Therefore, these costs are capitalized to the project and amortized once the project is operational or are charged to earnings if the project does not go ahead. These costs will vary from project to project; however, in order

for management to proceed with any project, it must support a pre-determined return on the capital costs invested, including capitalized environmental protection costs.

Due to the innovative nature of many of CHD's projects, regulatory review can take longer than for more routine projects. This longer review period can lead to higher costs of development compared to other technologies. This can affect the Company's competitive position when equated to entities which produce energy from non-renewable sources.

SELECTED FINANCIAL INFORMATION

Selected annual financial information derived from the Financials for the three most recently completed financial years is set forth below and is prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Revenue	\$28,899	\$23,707	\$21,662
Cash flow from operations ¹	9,901	10,289	8,854
Net earnings	820	4,180	3,087
Per share (basic)	0.01	0.06	0.05
Per share (diluted)	0.01	0.06	0.05
Total assets	583,349	243,591	193,310
Long term debt (excluding current portion)	224,927	64,800	61,799

¹ Before changes in non-cash working capital

Over the past three years, the Company has increased its generation from 360,007 MWh in 2003 to 400,007 MWh in 2004 and 464,607 MWh in 2005. During these periods, net installed capacity has increased from 103.9 MW in 2003 to 162.0 MW in 2005. The increase in capacity and, therefore, generation has been accomplished by the commencement of operations at the Pingston Expansion Hydroelectric Plant ("Pingston Expansion") in April 2004, the Taylor Wind Plant ("Taylor Wind") in December 2004, Misema in January 2005, GPEC in June 2005 and Mamquam in July 2005.

Revenue increased steadily over the past three years, primarily due to newly installed capacity, as described above, and partially because of high Pool prices received by CHD's merchant plants in 2005. The average price received by the Company for electricity from all operations in 2005 was \$62/MWh compared to \$59/MWh in 2004 and \$60/MWh in 2003.

While these factors had an overall positive impact on financial results from 2003 to 2005, the following increases had a negative impact: higher operating costs due to new plants, interest on debt to finance new plants, amortization on these new plants, a one-time cost to unwind an interest rate swap, administration costs to support increased operations and marketing efforts, income taxes resulting from increased profitability and Federal Tax on Large Corporations ("LCT") resulting from growth of the Company's capital base and prospect development costs written off.

RESULTS OF OPERATIONS

Revenue

Revenue in 2005 increased 22% to \$28,899,000 compared to \$23,707,000 in 2004 on generation of 464,607 MWh in 2005 compared to 400,007 MWh in 2004. The increase in revenue was primarily due to:

- Higher hydroelectric generation in B.C. (2005 – 175,481 MWh; 2004 – 154,919 MWh), Ontario (2005 – 74,295 MWh; 2004 – 71,831 MWh) and Alberta (2005 – 57,592 MWh; 2004 – 55,855 MWh) resulting from the start-up of Mamquam on July 23, 2005, the addition of Misema and higher water flows in those provinces;
- Higher wind generation in Alberta (2005 – 125,014 MWh; 2004 – 117,115 MWh) resulting from higher wind conditions in the fourth quarter of the year compared to the prior year and the addition of Taylor Wind in December 2004;
- The addition of GPEC on June 21, 2005, which generated 32,226 in 2005; and
- 25% higher average Pool prices received on the Company's generation exposed to the Pool in 2005 compared to 2004 (2005 – \$66/MWh; 2004 – \$53/MWh).

The Company sold 85% of its generation under long-term sales contracts in 2005 (2004 – 87%), which exceeds CHD's minimum stated target of 75% of generation under

long-term contracts. The average price received by the Company for electricity from all operations for 2005 was \$62/MWh compared to \$59/MWh in 2004.

The Company's installed capacity growth for 2005 was consistent with the target growth of 53.2 MW. The growth was due to the start up of GPEC in June 2005 and Mamquam in July 2005, and the addition of Misema acquired from a third party in January 2005. CHD's generation growth for 2005 was 64,600 MWh compared to a target of 210,000 MWh. The decrease was due to GPEC not performing as anticipated due to a delay in start-up as well as issues encountered during the year with the plant's combustors.

Operating Expenses

Operating expenses increased 90% to \$10,616,000 in 2005 compared to \$5,584,000 in 2004. Gross margins (revenue less operating expenses; expressed as a percentage of revenue) were lower at 63% for 2005 (2004 – 76%). The increase in operating expenses was due primarily to the addition of biomass operations in 2005, which has higher operating expenses and lower gross margins than the Company's hydroelectric and wind plants, higher than expected operating costs at GPEC due to issues encountered with the combustors since commissioning in June 2005, the addition of Mamquam, Misema and Taylor Wind, which had few or no comparable operating expenses from these plants in the prior year, and higher lease costs at Ragged Chute, resulting from the new lease agreement that commenced in June 2004.

Amortization Expense

Amortization expense increased 49% to \$6,171,000 in 2005 (2004 – \$4,152,000) due to a full year's amortization of Pingston Expansion, which commenced operations on April 26, 2004 and the addition of Misema, GPEC and Mamquam, which are each amortized over a 40 year period.

Interest on Long-Term Debt and Revolving Construction Lines of Credit

Interest on long-term debt (which does not include capitalized interest) in 2005 increased 17% to \$6,447,000 compared to \$5,493,000 in 2004. The increase in interest expense was due to higher outstanding debt on completed projects.

Capitalized interest associated with construction-in-

progress in 2005 was \$3,565,000 compared to \$1,381,000 in 2004. The increase was due to higher debt on projects under construction in 2005 compared to 2004. During 2005, GPEC, Mamquam and Melancthon I were under construction compared to GPEC, Pingston Expansion and Mamquam in 2004.

The Company significantly restructured its debt in 2005 with the closing of a \$120,000,000 unsecured private debt placement financing (the "Debentures"), \$100,600,000 in unsecured bank credit facilities (the "Bank Facilities"), and a \$35,000,000 (net to the Company's interest) secured joint debt private placement financing of the Pingston Hydroelectric Plant (the "Pingston Debt"). Dominion Bond Rating Service Ltd. provided an investment grade credit rating of BBB with a Stable Trend for the Debentures and A (High) with a Stable Trend for the Pingston Debt. This debt restructuring was the culmination of the Company's capital plan that was established in 2002. The new debt structure is expected to afford the Company the required financial flexibility and appropriate leverage to execute its strategic plan, including financing future growth in developing long-term contracted renewable power generation assets.

The result of this debt restructuring was an increase in long-term debt (including current portion) to \$226,765,000 as at December 31, 2005 (December 31, 2004 - \$66,497,000). This increase was offset partially by the repayment of the Company's secured bank credit facilities with proceeds from the Debentures and regular repayments on long-term debt during the year. The proceeds from the Bank Facilities are being used to finance \$75,600,000 of capital expenditures associated with Melancthon I and \$25,000,000 for general corporate purposes. The proceeds from the Pingston Debt were used primarily for capital expenditures associated with Melancthon I (see Note 6 to the consolidated financial statements).

In conjunction with the Company's debt restructuring, an interest rate swap that fixed the interest rate on a portion of its secured bank credit facilities was unwound at a cost of \$1,924,000, which was charged to earnings during 2005 (see Note 6 to the consolidated financial statements). The interest rate swap was unwound as the Company repaid this debt with proceeds from the Debentures. The long-term savings resulting from the Company's new and significantly lower cost debt structure will more than offset this one-time cost.

At December 31, 2005, the Company had a 41/59 debt/equity ratio (December 31, 2004 - 44/56), compared to the Company's revised target of 65/35. The Company expects to achieve this target upon the completion of its current slate of construction projects.

Administration Expense

Administration expense increased 8% to \$2,392,000 in 2005 compared to \$2,220,000 in 2004. The increase in 2005 was due to moderately higher salary costs with the addition of twelve new employees, increased stock compensation expense due to stock options issued to employees during the year and higher bonuses paid to certain employees compared to the prior year. The increase was reduced by a cash payment received by the Company of \$750,000, net of associated costs, due to the settlement of a lawsuit with a former insurer and engineering firm associated with a project. Capitalized administration costs associated with construction-in-progress in 2005 were \$891,000 compared to \$514,000 in 2004. These costs were higher than the prior year as projects totaling 117.5 MW were under construction in 2005 compared to 60.9 MW in 2004.

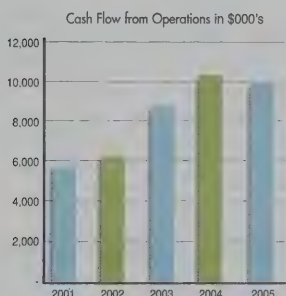
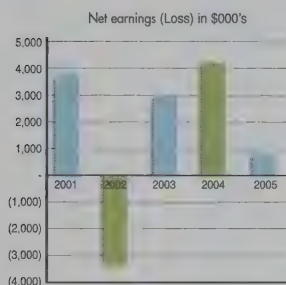
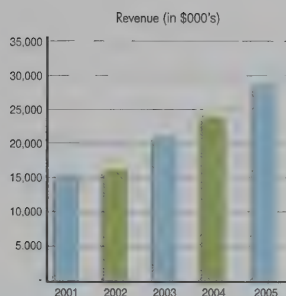
Prospect Development Costs

From time to time, initial site investigations and project economics do not justify the Company pursuing certain prospective projects, and as such, these costs are written off. During 2005, prospect development costs of \$70,000 were written off (2004 - \$nil).

During 2005, the Company sold certain wind energy development prospects acquired from the acquisition of CREC on January 21, 2005, for proceeds of \$310,000, plus an additional contingent payment should the purchasers be successful in constructing wind generating assets within a certain period of time following the sale. These sales resulted in a gain of \$78,000 being recognized for the year ended December 31, 2005.

Taxes

CHD has available tax pools of \$258.5 million (2004 - \$183.0 million) compared to book assets of \$394.9 million (2004 - \$237.8 million). The Company does not anticipate paying cash income taxes for several years, other than in respect of the Cowley Ridge Wind Plant, through its wholly owned subsidiary, Cowley Ridge Wind Power Inc. However, the Company is liable for LCT and Ontario



Provincial Capital Taxes, which comprise the current tax provision. The Company's larger capital base in 2005 resulted in higher current taxes compared to the prior year, which was offset partially by a decrease in the LCT rate from 0.2% to 0.175% of capital, less a \$50,000,000 capital deduction in 2005. LCT will be phased out by the Federal Government by January 1, 2008.

Cowley Ridge Wind Power Inc. is fully taxable, but is entitled to recover approximately 175% of cash taxes paid annually (limited to 15% of eligible gross revenue) in accordance with the Revenue Rebate Regulation of the Alberta Small Power Research and Development Act. This Regulation will apply until the associated power sale agreements expire in 2013 (9.0 MW) and 2014 (9.9 MW).

In 2005, future tax expense decreased to \$376,000 compared to \$1,579,000 in 2004 primarily due to lower taxable earnings, combined with tax pools available to the Company to offset the current taxes to future periods compared to higher taxable earnings in 2005.

Net Earnings and Cash Flow from Operations before Changes in Non-Cash Working Capital

Net earnings in 2005 decreased to \$820,000 (\$0.01 per share, diluted) from \$4,180,000 (\$0.06 per share, diluted) in 2004. The decrease in net earnings from the prior year was due to costs to unwind the interest rate swap, higher operating costs, interest on debt, amortization expense, administration expense and current taxes; offset partially by a higher gain on derivative financial instrument, a gain on the sale of a development prospect and lower future taxes, as described above. The decrease in net earnings on a diluted per share basis was due to the decrease in earnings and the issuance of equity during 2005, the proceeds of which will be used to fund a portion of the construction costs related to new projects and for general corporate purposes. Similarly, excluding non-cash items, cash flow from operations before changes in non-cash working capital in 2005 decreased 4% to \$9,901,000 from \$10,289,000 in 2004.

The ROACE for 2005 decreased to 9% (2004 - 12%), which is below CHD's stated target of 10%-15% and original expectations for 2005 of 13%. ROACE decreased mainly due to the delay in the start up of GPEC and the issues experienced with the plant since inception. The Company expects ROACE to improve in 2006 to 11% due primarily to the addition of Melancton I in March 2006.

ROACE is provided to assist investors in understanding one of the main performance measures the Company uses to monitor and assess its performance. This measure does not have any meaning prescribed in GAAP and may not be comparable to similar measures presented by other companies. ROACE for 2005 and 2004 is calculated as follows:

	2005	2004
	\$	\$
Cash flow from operations ¹	9,901	10,289
Add:		
Current tax expense	1,361	845
Interest on long-term debt	6,447	5,493
Return	17,709	16,627
Capital assets, beginning of year	220,537	168,136
Add:		
Capital assets, end of year	363,526	220,537
Subtract:		
Construction-in-progress, beginning of year	86,295	35,318
Construction-in-progress, end of year	118,317	86,295
	379,451	267,060
Divide by	2	2
Divide by: average capital employed	189,726	133,530
ROACE	9%	12%

¹ Before changes in non-cash working capital

Financial Position

The following chart outlines significant changes in the consolidated balance sheet from December 31, 2004 to December 31, 2005:

	Increase (Decrease)	Explanation
	\$	
Cash	178,367	Increase due to proceeds from share issuances and debt restructuring in 2005, collection of year end receivables and revenue rebate, and cash flow from operations in 2005; offset partially by capital asset additions related to construction projects, prospect development costs incurred, long-term debt repayments, payment of accounts payable since year end, and unwind costs on the interest rate swap.
Accounts receivable	3,290	Increase in uncollected revenue from hydroelectric, wind and biomass plants as generation was higher in December 2005 than in December 2004.
Deferred financing costs	2,072	Increase due to costs incurred on long-term debt financings that are amortized over the life of the debt.
Capital assets	142,989	Construction costs on GPEC, Mamquam, and Melancthon I, and the acquisition Misema (see Note 7(b) to the Financials); offset partially by amortization.

Prospect development costs	12,786	Increase due to the acquisition of development prospects (see Note 7(b) to the Financials) and costs related to the development of new prospects, including, but not limited to, Melancthon II, Wolfe Island, and Island Falls; offset partially by the write-off of certain development prospects.
Other liabilities	(2,290)	Decrease due to payments in amounts owing to a third party (see Note 15(b) to the Financials).
Deferred credit	272	Fair value of a contract for difference ("CFD") (see Note 5 to the Financials), net of recognition into earnings.
Accounts payable and accrued liabilities	2,779	Payment of project and operating costs accrued at December 31, 2004; offset partially by project and operating costs accrued at December 31, 2005.
Long-term debt	160,127	Increase resulting from debt restructuring in 2005; offset partially by repayment of long-term debt.
Revolving construction lines of credit	(28,800)	Repayment of the revolving construction lines of credit with proceeds from the Debentures.
Future income taxes	1,972	Decrease due to future income taxes that are expected to be recovered by the Company in the future based on the Company's taxable position at December 31, 2005, the acquisition of a future tax asset (see Note 7(b) to the Financials) and the tax effect on share issue costs.
Share capital and warrants	203,992	Common share issuances from a public equity offering, acquisition of Canadian Renewable Energy Corporation, a private placement, option exercises and conversion of warrants (see Note 7 to the Financials).

Capital Asset Additions and Prospect Development Costs

Capital asset additions were \$129,144,000 in 2005 (2004 – \$50,303,000), resulting in a 65% increase in the net book value of capital assets. These significant investment activities relate to construction costs and equipment purchases incurred for the completion of the GPEC and Mamquam, and the construction of Melancthon I. Additions of prospect development costs were \$8,160,000 in 2005 (2004 – \$10,728,000), relating primarily to the development of Melancthon II and Wolfe Island.

Capital Resources and Liquidity

On January 21, 2005, the Company acquired the shares of CREC in exchange for 4,037,687 common shares of the Company valued at \$12,113,000. On November 21, 2005, 1,750,000 common shares of the Company valued at \$7,648,000 were issued as additional consideration for the purchase as the Company was successful in obtaining RES II Contracts for Melancthon II, Wolfe Island and Island Falls, which were prospects of CREC. Upon acquisition, an additional 500,000 Series A Special Warrants were also issued, which vest and automatically convert into common shares upon certain events occurring. CREC was an independent power producer with an operating

3.2 MW hydroelectric plant and several hundred megawatts of wind and hydroelectric development prospects in Ontario. See Note 7(b) of the Financials.

On August 23, 2005, the Company issued 85,575 common shares at \$4.09 per share to a third party as part of an agreement related to the construction of one of the Company's plants.

On December 19, 2005, the Company closed a public offering of common shares through a syndicate of underwriters for the issue of 32,500,000 common shares at a price of \$5.10 per share for gross proceeds of \$165,750,000. Included in the public offering was an over-allotment option which was exercised by the underwriters on December 23, 2005 resulting in the issuance of 4,425,000 common shares of the Company at a price of \$5.10 per share for gross proceeds of \$22,568,000. The proceeds will be used to fund a portion of the construction costs related to Melancthon II, Wolfe Island and Island Falls, and for general corporate purposes.

In addition to these share issuances, 741,750 stock options were exercised for proceeds of \$599,000 during 2005.

During 2004, 4,422,222 common share purchase warrants were exercised into an equal number of common shares prior to expiry at \$2.35 per share for gross and net proceeds of \$10,392,000. In addition, the Company issued 1,000,000 common shares at \$2.58 per share for gross and net proceeds of \$2,580,000, through a private placement with a large shareholder of CHD. Finally, 376,100 stock options were exercised for cash proceeds of \$583,000. The aggregate cash proceeds of \$19,972,222 from these common share issuances were used to finance costs associated with the development of renewable energy prospects, including Melancthon I.

The Company expects to achieved commercial operations at Melancthon I in March 2006, for a budgeted capital cost of \$126,000,000 of which \$118,317,000 had been spent as at December 31, 2005. The Company's current capital expenditure plans total approximately \$707,000,000 for the construction of three projects in Ontario from 2006 through to 2008. Up to \$180,200,000 of the capital costs will be financed from proceeds of the public offering completed in 2005, a further \$62,500,000 from expected future cash flow to be generated by the Company and potential future equity offerings, and the remaining \$464,300,000 through debt financing.

SUMMARY OF QUARTERLY RESULTS

	Financial Quarter Ended (Unaudited)			
	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005
Revenue	\$9,792	\$6,891	\$6,983	\$5,233
Cash flow from operations ¹	3,301	1,220	3,639	1,741
Net earnings (loss)	276	(1,274)	1,713	105
Per share (diluted)	-	(0.02)	0.02	-

	Financial Quarter Ended (Unaudited)			
	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004
Revenue	\$5,858	\$7,064	\$6,633	\$4,152
Cash flow from operations ¹	2,506	3,589	3,469	725
Net earnings (loss)	1,129	1,379	1,791	(119)
Per share (diluted)	0.02	0.02	0.03	-

¹ Before changes in non-cash working capital.

As discussed in 'Seasonality and Cyclicity' above, variations over the quarters are due in part to the cyclical nature of electricity prices and the Company's power plants, which are subject to seasonality associated with wind and water resources. Quarterly results in 2005 were due primarily to the addition of Taylor Wind in December 2004, Misema acquired in January 2005, GPEC that achieved commercial operations in June 2005, and Mamquam, which was commissioned in July 2005, in addition to higher water levels and a windier season in Alberta and 25% higher average Pool prices received on the Company's generation exposed to the Pool. Water levels in B.C. and Ontario were consistent with the prior year at above normal levels.

FOURTH QUARTER

With the exception of net earnings, financial results for the fourth quarter ended December 31, 2005 ("Q4 2005") improved over Q4 2004 due primarily to the following:

- Generation increased 44% to 140,710 MWh in Q4 2005 (Q4 2004 – 98,070 MWh) due to the addition of the plants discussed above and a windier season in Alberta;
- Higher average prices received by the Company for electricity from all operations (Q4 2005 – \$68/MWh; Q4 2004 – \$60/MWh) resulting from higher Pool prices in the quarter;

offset partially by:

- Higher operating costs due to the addition of new plants including GPEC, which has a lower gross margin than wind and hydroelectric plants;
- Increased amortization expense due to the addition of several new plants during the year;
- Increased interest on long-term debt due to increased debt on completed projects;
- Higher LCT due to increased taxable capital, resulting from the December 2005 share issuance, in Q4 2005 compared to the same quarter in the prior year;
- Higher administration costs due to the addition of twelve new employees in 2005 as well as higher stock compensation cost due to increased options granted to employees during the year; and
- Prospect development costs written off (Q4 2005 – \$70; Q4 2004 – \$nil).

CONTRACTUAL OBLIGATIONS

At December 31, 2005, the Company had the following contractual obligations:

	Total \$	2006 \$	2007-2008 \$	2009-2010 \$	Thereafter \$
Long-term debt ¹	226,765	1,838	60,766	4,341	159,820
Purchase obligations ²	419,699	85,255	334,444	-	-
Total contractual obligations	646,464	87,093	395,210	4,341	159,820

¹ Obligations relating to long-term debt are described in Note 6(a) to the Financials.

² Obligations relating to purchases are described in Note 16(e) to the Financials.

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2005 and 2004, the Company has no off-balance sheet arrangements.

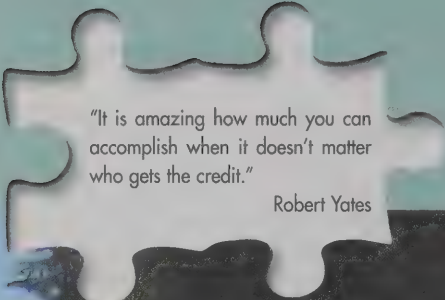
TRANSACTIONS WITH RELATED PARTIES

Gross overriding royalties ranging from 1% - 2% are payable by the Company on electric energy sales on four of CHD's original hydroelectric plants to a company controlled by J. Ross Keating, President, Chief Operating Officer and a director of the Company. During the year, royalties totalling \$75,000 (2004 – \$61,000) were incurred with \$2,000 (2004 – \$6,000) payable at year end.

SUBSEQUENT EVENTS

In January 2006, the Company entered into a CFD with a third party whereby the party has agreed to pay a fixed price to the Company based on the average Pool prices for 17,520 MWh per annum. The contract begins on January 1, 2007 and expires on December 31, 2007. While the CFD does not create any obligation by the Company for the physical delivery of electricity to the third party, the Company believes it will have sufficient electrical generation to satisfy the CFD throughout its term, and as such, the Company expects the CFD to qualify for hedge accounting.

Subsequent to December 31, 2005, the Company entered into various foreign exchange contracts with one of its



"It is amazing how much you can accomplish when it doesn't matter who gets the credit."

Robert Yates

corporate lenders to fix the exchange rate of U.S. to Canadian dollars and Euros to Canadian dollars on future committed U.S. dollar and Euro denominated purchases of wind turbine equipment. The Company fixed the exchange rate on the U.S. dollar contracts at an average of 1.1515 for \$146,068,845 and on the Euro contracts at an average of 1.4095 for \$36,874,817.

PROPOSED TRANSACTIONS

The Company currently has no proposed asset or business acquisition or disposition transactions.

CRITICAL ACCOUNTING ESTIMATES

An accounting estimate is considered critical only if it requires the Company to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and different estimates the Company could have used would have a material impact on CHD's financial condition, changes in financial condition or results of operations.

While there are several estimates and assumptions made by management in the preparation of Financials in accordance with GAAP, the following critical accounting estimates have been identified by management:

Dunvegan Hydroelectric Prospect

At December 31, 2005, the Company had incurred \$7,676,000 (2004 - \$6,885,000) in prospect development costs related to Dunvegan Hydroelectric Prospect. In March 2003, the Company received an unfavourable regulatory decision for this prospect. The Company has chosen to reapply to regulators for the approval of the prospect utilizing the information previously filed along with new evidence obtained since the original hearing in 2002. Management anticipates requesting a hearing date in spring 2006 from the regulators, with an expected hearing date in the late fall of 2006, and anticipates a decision will be rendered in the first half of 2007. Management is optimistic that this formal process will result in a positive change to the original decision. However, there can be no assurance that regulatory approvals for this prospect will be obtained. Should the Company not be successful in obtaining regulatory approvals, the prospect would likely be abandoned and the related prospect development costs would be written off.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2005, the Company adopted the CICA accounting guideline for identifying and accounting for variable interest entities ("VIEs"). Under the guideline, the Company is required to identify VIEs, determine whether it is the primary beneficiary of such entities and, if so, to consolidate them. The Company has considered the provisions of the guideline for all joint ventures and their related joint venture, operating and maintenance, marketing, power sales and debt agreements, if any. Factors considered in the analysis include how power sales payments are determined, responsibility and payment for capital, operating and maintenance expenses, and decision making by the joint venture participants. As a result of the review, the Company has determined that it does not have interests in VIEs that require consolidation. As a result of adopting this guideline there is no impact on the Company's financial statements.

FINANCIAL INSTRUMENTS

The Company has a risk management policy that is approved annually by the Board of Directors. The Company's general philosophy is to avoid unnecessary risk and to limit, to the extent practicable, any significant risks associated with business activities. The Company may use from time to time derivative financial instruments to manage or hedge commodity price, interest rate, and foreign currency risks. Use of derivatives on a speculative or non-hedged basis is specifically disallowed. Authorization levels for the execution of derivatives for hedging purposes have been set by the Board of Directors and are reviewed quarterly by the Audit Committee.

For the year ended December 31, 2005, and subsequent to year end, the Company had the following financial instruments in place to manage risk:

Contracts for Differences

The Company has entered into various CFDs with other parties whereby the other parties have agreed to pay a fixed price to the Company based on the average monthly Pool price for an aggregate of 184,330 MWh per year of electricity from January 1, 2006, maturing from 2007 to 2024. While the CFDs do not create any obligation by the Company for the physical delivery of electricity to other

parties, management believes it has sufficient electrical generation, which is not subject to contract, to satisfy the CFDs. The Company is unable to fair value two of the CFDs for an aggregate of 4,150 MWh per year of electricity because the CFD prices includes the sale of RECs along with the settlement of the average monthly Pool price. At December 31, 2004, the Company fair valued its various CFDs with other parties using the forward market prices for electricity for 2005 and 2006 and, due to the illiquidity of the forward market past 2006, using the 2006 forward market price for 2007 onwards, discounted at 5%. In 2005, given the ongoing illiquidity of the forward market, the Company enhanced its assumptions for fair valuing its CFDs by assuming the actual contract prices contained in the CFDs were the same as the forward prices for periods where no forward market prices exist. Had these assumptions been used at December 31, 2004, the fair value of the Company's CFDs would have resulted in a gain of \$1,035,000 compared to a gain of \$7,327,000 as disclosed previously. The enhanced assumptions relate to fair value disclosures and have no impact on previously reported earnings. CFDs that do not qualify for hedge accounting are recognized on the balance sheet and measured at fair value with changes in fair value recognized currently in earnings. As at December 31, 2005, the fair value of the remaining CFDs that continue to qualify as hedges would result in a loss of \$1,021,000.

OUTSTANDING SHARE DATA

	As at February 13, 2006 (unaudited)
Basic common shares	119,017,773
Convertible securities:	
Warrants	500,000
Options	3,488,250
Fully diluted common shares	123,006,023

RISK FACTORS

Risk factors associated with the development and operation of power generation plants relate to environmental concerns, business factors, and changes in government regulation. Should one or more of these risks materialize, actual results may vary materially from those currently anticipated.

Effects of Weather

By the nature of its business, the Company's earnings are sensitive to weather variations from period to period. Variations in winter weather affect the demand for electrical heating requirements. Variations in summer weather affect the demand for electrical cooling requirements. These variations in demand translate into spot market price volatility. Variations in precipitation also affect water supplies, which in turn affect the Company's hydroelectric assets. Variations in wind affect generating levels of the Company's wind assets.

The Company currently operates a portfolio of 17 facilities totaling 162 MW of net installed capacity, representing three proven technologies, with no one facility accounting for more than 25% of overall average long-term annual generation. Diversification of the Company's hydroelectric and wind plants across three provinces reduces weather-related (hydrological and wind) production variability. As a result, the Company's asset base offers significant diversification by facility, by technology, by power purchaser and by geography, which minimizes the effects of weather.

Hydrology

The revenues generated by the power systems are proportional to the amount of electricity generated. The amount of electricity generated by the Company's hydroelectric assets is dependent upon available water flows. Accordingly, revenues and cash flows may be affected by low and high water flows in the watersheds. There can be no assurance that the long-term historical water availability will remain unchanged or that no material hydrologic event will impact the hydrologic conditions that exist within the watershed. Annual deviations from the long-term average can be significant. This risk is mitigated by technological and geographic diversification of the Company's portfolio of renewable energy plants.

Wind

Wind is naturally variable. Therefore, the level of electricity production from a wind power generation facility will also be variable. A reduced amount of wind at the location of one of the wind generation facilities over an extended period may reduce the production from such facility and reduce the Company's revenues and profitability. This risk is mitigated by technological and geographic diversification of the Company's portfolio of renewable energy plants.

Assessment of Wind Resource and Associated Wind Energy Production

The strength and consistency of the wind resource at the plants may vary from what the Company anticipates. The following is a list of considerations which may contribute to actual energy production being different than the energy production estimates of the Company:

- the extent to which the limited time period of the site-specific wind data accurately reflects long-term wind speeds;
- the extent to which historical data accurately reflects the strength and consistency of the wind in the future;
- the strength of the correlation between the site-specific wind data and the longer-term regional wind data;
- the potential impact of climatic factors;
- the accuracy of assumptions on a variety of factors, including but not limited to weather, icing and soiling of wind turbines, site access, wake and line losses and wind shear;
- the accuracy with which anemometers measure wind speed, and the difference between the hub height of the wind turbines and the height of the meteorological towers used for data collection;
- the potential impact of topographical variations, turbine placement and local conditions, including vegetation;
- the inherent uncertainty associated with the specific methodologies and related models, in particular future-orientated models, used to project the wind resource; and
- the potential for electricity losses to occur before delivery.

Biomass

The Company has limited experience in operating a biomass generating facility, which may have a negative effect on the Company's ability to ensure that GPEC operates without incident and up to expectations. In addition, the operation of a biomass facility requires that a fuel in the form of wood fibre be provided. If there is any interruption in the provision of wood fibre for the Company's biomass facility, the ability of GPEC to generate electricity and steam will be negatively affected, having a negative impact on its revenues and profitability from such facility. GPEC, like many biomass facilities, is dependent on its adjacent host for receipt of fuel and as a customer of electricity and steam. The Company has attempted to mitigate this risk

by entering into a long-term wood fibre supply contract with the host, which contains an indemnification should such supply not be provided by the host.

Reliance Upon Transmission Systems

A generator's ability to sell electricity is impacted by the availability of the various transmission systems in each province. The failure of existing transmission facilities or the lack of adequate transmission capacity would have a material adverse effect on the Company's ability to deliver electricity to its various counterparties, thereby affecting the Company's business, operating results, financial condition or prospects. The Company has managed the risk that all of its 17 operating plants could be unable to deliver electricity at the same time due to transmission facility problems by having multiple operating plants in three different provinces, individually connected to different transmission facilities.

Equipment Failure

There is a risk of equipment failure due to wear and tear, latent defect, design error or operator error, among other things, which could adversely affect revenues and cash flows. Although the power systems have operated in accordance with expectations, there can be no assurance that they will continue to do so. This risk is partly mitigated by major equipment warranties from the suppliers, a comprehensive plant preventative maintenance program and insurance.

Insurance Limits

While the Company believes its insurance coverage addresses all material insurable risks, provides coverage that is similar to what would be maintained by a prudent owner/operator of similar facilities, and is subject to deductibles, limits, and exclusions which are customary or reasonable given the cost of procuring insurance and current operating conditions, there can be no assurance that such insurance will continue to be offered on an economically feasible basis, nor that all events are insured that could give rise to a loss or claim that may occur involving the assets or operations of the Company.

Construction and Design

The construction and development of generating facilities are subject to various environmental, engineering and construction risks relating to cost-overruns, delays and

performance. A number of factors that could cause such delays or cost over-runs include, but are not limited to: permitting delays, changing engineering and design requirements, the performance of contractors, labour disruptions and inclement weather. Even when complete, a facility may not operate as planned and design or manufacturing flaws may occur, which could conceivably not be covered by warranty. Mechanical breakdown could occur in equipment after the period of warranty has expired, resulting in loss of production as well as the cost of repair. This risk is mitigated, where possible, by performing detailed analysis of project economics prior to construction, utilizing preventative maintenance programs and insurance, carrying an inventory of spare parts, and entering into fixed price contracts, where appropriate, in order to limit CHD's financial exposure.

Development

The Company participates in the construction and development of new power generating facilities. The nature of some of these expenditures is somewhat speculative. The Company is in some cases required to advance funds and post performance bonds in the course of development of its new facilities. In the event that certain of the developments of the Company's business are not completed or do not operate to the expected specifications, the Company could suffer a negative effect on its revenues and profitability. This exposure is reduced by performing a detailed analysis of project economics throughout the various stages of development and during construction.

Commodity Price

A portion of the Company's generation is sold in the wholesale power markets and is accordingly subject to fluctuations in the wholesale price of electricity. If the Company's long-term electrical generation sales contracts expire and are not replaced with new contracts, then the Company will face market price risks. There can be no guarantee that market prices will be equal to the expired long-term electrical generation sales contracts, which could negatively impact financial results for the Company.

The Company seeks to reduce its exposure to the sale of electricity on a spot basis by entering into long-term contracts for at least 75% of its power generation. A list of CHD's plants, related contracts and expiry dates are included in the 'Operating Plants, Construction Projects and Development Prospects' section of the Annual Report.

Dam Safety

The occurrence of dam failures at any of the Company's hydroelectric generating stations could result in a loss of generating capacity, and repairing such failures could require the Company to incur significant expenditures of capital and other resources. Such failures could result in the Company being exposed to significant liability for damages. There can be no assurance that the Company's dam safety program will be able to detect potential dam failures prior to occurrence or eliminate all adverse consequences in the event of failure. Other safety regulations could change from time to time, potentially impacting the Company's costs and operations. Upgrading all dams to enable them to withstand all events could require the Company to incur significant expenditures of capital and other resources. The consequences of dam failures could have a material adverse effect on the Company's business, operating results, financial condition or prospects. The Company attempts to minimize this risk by following preventative maintenance procedures and obtaining adequate insurance coverage.

Natural Disasters; Force Majeure

The Company's plants and operations are exposed to potential damage, partial or full loss, resulting from environmental disasters (e.g. floods, high winds, fires, and earthquakes), equipment failures and the like. The occurrence of a significant event which disrupts the ability of the Company's generation assets to produce or sell power for an extended period, including events which preclude existing customers from purchasing electricity, could have a material negative impact on the business of the Company. The Company's generation assets could be exposed to effects of severe weather conditions, natural disasters and potentially catastrophic events such as a major accident or incident at the Company's generation assets or a generating plant owned by a third party to which the transmission assets are connected. In certain cases, there is the potential that some events may not excuse the Company from performing its obligations pursuant to agreements with third parties. In addition, many of the Company's generation assets are located in remote areas which makes access for repair of damage difficult. This exposure is reduced by insurance and force majeure clauses in the power purchase agreements, where possible.

Operating and Capital Expenditure Costs

In the future, the Company's generation assets may require significant capital expenditures and its operations could be exposed to unexpected increases in operating costs such as increased operating labour costs, water rental costs and taxes. The Company manages this risk by anticipating and budgeting for future capital expenditures and increases in operating costs through its annual budgeting process.

Water Rental Expense

In the provinces of Ontario, Alberta and British Columbia, the Company makes rental payments for water rights used at its respective hydroelectric plants. Significant increases in water rental costs in the future or changes in the way that the governments of Ontario, Alberta and British Columbia regulate water supply could have a material adverse effect on the Company's business, operating results, financial condition or prospects. This exposure is reduced, where possible, with the Company's "non-market forces" plan to ensure potential changes to regulations and laws affecting the Company's operations are known, understood, and managed to the extent possible.

Key Employees

Holders of securities of the Company must rely upon the experience and expertise of several key employees of the Company. The Company's continued success is dependent upon its ability to attract and also retain experienced management. This risk is mitigated through the Company's human resources and succession plan. The Company has key man insurance of \$1 million on each of the Chief Executive Officer and Chief Operating Officer.

Performance of Counterparties

The Company sells the majority of its power and, in some cases, RECs, to third parties on a long-term basis. In addition, the Company enters into purchase orders with third party suppliers for generation equipment for projects under construction, which involve deposits prior to equipment being delivered. Should one or more of these third parties be unable to meet their obligations under the contracts, this would result in possible loss of revenue, delay in construction, and increase in construction costs.

This risk is mitigated, where possible, by entering into contracts with credit worthy third parties, and, at times, obtaining letters of credit from these parties. Approximately 85% of the Company's power sales are currently with investment grade counterparties which are rated A(high) or better.

Industry Risk and Competition

The Company operates in the Canadian power sector, which is affected by competition, supply of and demand for power in the provinces it operates (British Columbia, Alberta and Ontario), as well as to the United States, where import/export transmission lines exist, and overall economic conditions in Canada and the United States. These areas of operation are affected by competition ranging from large utilities to small independent power producers. Some competitors have significantly greater financial and other resources than the Company. The Company manages the risk of these factors negatively impacting its business through its annual and ongoing strategic planning process. In addition, the Company's strategy of focusing on low-impact, renewable projects, as well as its over 15 years of experience mitigate this risk.

Interest Rate and Refinancing Risk

Interest rate fluctuations are of particular concern to a capital-intensive industry such as the electric power business. While the interest rates on the Company's long-term debt such as the Debentures will be fixed, the Company faces interest rate and debt refinancing risk in respect of floating-rate bank credit facilities used for construction financing. The ability of the Company to refinance debt when due is dependent on debt capital market conditions, which can change from time to time. To minimize this risk, the Company will, if possible, enter into interest rate swap agreements and exchange contracts to either effectively fix the interest rate on floating rate debt or to float the interest rate on fixed rate debt.

Additional Financing

To the extent that external sources of capital, including the issuance of additional securities of the Company, become limited or unavailable, the Company's ability to make the necessary capital investments to construct new plants or maintain its existing plants and remain in business will be

impaired. There can be no assurance that additional financing will be available or, if available, will be on reasonable terms. If financing is obtained by issuing additional Common Shares, investors may suffer dilution to their holdings of securities of the Company.

Foreign Exchange


The Company, on occasion, purchases equipment from foreign suppliers. As such, the Company may be exposed to changes in the Canadian dollar in relation to the foreign currency denominated equipment purchases. This risk is mitigated, where possible, by fixing the purchase price in Canadian dollars or entering into a foreign exchange swap to fix the exchange rate.

Regulatory and Political

The Company's operations are also subject to changes in governmental regulatory requirements or the applicable governing statutes, including regulations related to the environment, unforeseen environmental effects, general economic conditions and other matters beyond the control of the Company.

The operation of power generating plants is subject to extensive regulation by various government agencies at the municipal, provincial and federal level. There is always the risk of changes being made in government policies and laws, including rates for water rentals and for income, capital and municipal taxes, and for competitive market and political reasons. As part of the Company's "non-market forces" plan, it maintains memberships with associations such as the Independent Power Associations in British Columbia, Alberta and Ontario, the Canadian Hydro Power Association, the Ontario Waterpower Association, the Canadian Wind Energy Association, and the Clean Air Renewable Energy Coalition, which provide the independent power industry with credibility and strength when necessary, to lobby for a competitive and level playing field.

The Company holds permits and licenses from various regulatory authorities for the construction and operation of its plants. These licenses and permits are critical to the operation of the Company's business. The majority of these permits and licenses are long term in nature, reflecting the anticipated useful life of the plants. These permits and



"Coming together is a beginning. Keeping together is progress. Working together is success."

Henry Ford

licenses are dependent upon the Company's compliance with the terms thereof. In addition, delays may occur in obtaining necessary government approvals required for future power projects.

From time to time, and in order to secure long lead times often associated with ordering equipment, the Company may place orders for equipment and make deposits thereon or advance projects prior to obtaining all requisite permits and licenses. The Company only takes such actions where it reasonably believes that such licenses or permits will be forthcoming in due course prior to the requirement to expend the full amount of the purchase price. However, any delay in permitting could adversely affect the Company.

Health, Safety and Environmental Risks

The ownership and operation of the Company's generation assets carry an inherent risk of liability related to worker health and safety and the environment, including the risk of government imposed orders to remedy unsafe conditions and/or to remediate or otherwise address environmental contamination, potential penalties for contravention of health, safety and environmental laws, licenses, permits and other approvals, and potential civil liability. Compliance with health, safety and environmental laws (and any future changes) and the requirements of licenses, permits and other approvals will remain material to the Company's business. The Company has incurred and will continue to incur significant capital and operating expenditures to comply with health, safety and environmental laws and to obtain and comply with

licenses, permits and other approvals and to assess and manage its potential liability exposure. Nevertheless, from time to time the Company may be unsuccessful in obtaining an important license, permit or other approval or become subject to government orders, investigations, inquiries or other proceedings (including civil claims) relating to health, safety and environmental matters. The occurrence of any of these events or any changes, additions to or more rigorous enforcement of health, safety and environmental laws, licenses, permits or other approvals could have a significant impact on operations and/or result in additional material expenditures. As a consequence, no assurances can be given that additional environmental and workers' health and safety issues relating to presently known or unknown matters will not require unanticipated expenditures, or result in fines, penalties or other consequences (including changes to operations) material to its business or operations.

The Company mitigates this risk, where possible, by employing an environment, health and safety management system, and by utilizing insurance and performance bonds to limit its financial exposure.

Litigation

Although there are currently no material legal proceedings outstanding or threatened against the Company or its assets, the Company may become party to litigation in the future which could adversely affect its business. Exposure to potential future claims is mitigated by the Company obtaining levels of insurance considered appropriate by management and active management of these claims.

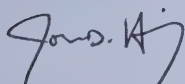
MANAGEMENT'S REPORT

To the Shareholders of Canadian Hydro Developers, Inc.:

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. Both the financial and operating information presented in the annual report are consistent with that shown in the consolidated financial statements.

Management has implemented appropriate internal systems, procedures and controls to provide reasonable assurance that all transactions are properly authorized, assets are safeguarded and financial records are maintained to facilitate the preparation of reliable, complete and timely consolidated financial statements.

Deloitte & Touche LLP, an independent firm of Chartered Accountants, has been engaged to examine the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion. The Audit Committee of the Board of Directors, with all of its members being outside directors, has reviewed the consolidated financial statements including the notes thereto with management and Deloitte & Touche LLP. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.



Chief Executive Officer
February 3, 2006



Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of
Canadian Hydro Developers, Inc.:

We have audited the consolidated balance sheets of Canadian Hydro Developers, Inc. as at December 31, 2005 and 2004 and the consolidated statements of earnings and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
February 3, 2006





"Deloitte & Touche LLP"
Chartered Accountants

CANADIAN HYDRO DEVELOPERS, INC.
Consolidated Statements of Earnings and Retained Earnings
Years Ended December 31,
(in thousands of dollars, except per share amounts)

	<u>2005</u>	<u>2004</u>
REVENUE		
Electric energy sales	28,384	23,197
Revenue rebate (Note 8)	515	510
	<u>28,899</u>	<u>23,707</u>
EXPENSES		
Operating	10,616	5,584
Interest on long-term debt (Note 3)	6,447	5,493
Amortization	6,171	4,152
Administration (Notes 3 and 9)	2,392	2,220
Gain on derivative financial instruments (Note 5)	(1,200)	(346)
Gain on sale of development prospect	(78)	-
Write-off of prospect development costs	70	-
	<u>24,418</u>	<u>17,103</u>
EARNINGS BEFORE THE FOLLOWING	<u>4,481</u>	<u>6,604</u>
Unwind costs on interest rate swap (Note 6(a))	<u>1,924</u>	<u>-</u>
EARNINGS BEFORE TAX EXPENSE	2,557	6,604
TAX EXPENSE (Note 10)		
Current	1,361	845
Future	376	1,579
	<u>1,737</u>	<u>2,424</u>
NET EARNINGS	820	4,180
RETAINED EARNINGS, BEGINNING OF YEAR	<u>13,172</u>	<u>8,992</u>
RETAINED EARNINGS, END OF YEAR	<u>13,992</u>	<u>13,172</u>
Earnings per share (Note 11)		
Basic	<u>0.01</u>	<u>0.06</u>
Diluted	<u>0.01</u>	<u>0.06</u>

CANADIAN HYDRO DEVELOPERS, INC.
Consolidated Balance Sheets
December 31,
(in thousands of dollars)

	2005	2004
ASSETS		
CURRENT		
Cash and cash equivalents	179,801	1,434
Accounts receivable	6,178	2,888
Prepaid expenses	771	628
Revenue rebate (Note 8)	515	510
Taxes receivable	-	41
Derivative financial instruments (Note 5)	401	254
	187,666	5,755
Deferred financing costs	2,072	-
Capital assets (Note 3)	363,526	220,537
Prospect development costs (Note 4)	30,085	17,299
TOTAL ASSETS	583,349	243,591
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	9,252	6,473
Current portion of long-term debt (Note 6(a))	1,838	1,697
Deferred credit (Note 5)	272	-
Taxes payable	251	-
Other liabilities (Note 15(b))	-	2,290
Revolving construction lines of credit (Note 6(b))	-	28,800
	11,613	39,260
Long-term debt (Note 6(a))	224,927	64,800
Future income taxes (Note 10)	20,231	18,259
	256,771	122,319
COMMITMENTS & CONTINGENCIES (Note 16)		
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	311,771	107,779
Contributed surplus (Note 7(d))	815	321
Retained earnings	13,992	13,172
	326,578	121,272
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	583,349	243,591
APPROVED BY THE BOARD		
	 Director	 Director

CANADIAN HYDRO DEVELOPERS, INC.
Consolidated Statements of Cash Flows
Years Ended December 31,
(in thousands of dollars)

	2005	2004
OPERATING ACTIVITIES		
Net earnings	820	4,180
Adjustments for:		
Amortization	6,171	4,152
Unwind costs on interest rate swap (Note 6(a))	1,924	-
Stock compensation expense (Note 7(d))	494	224
Future income tax expense	376	1,579
Loss on derivative financial instruments (Note 5)	124	154
Write-off of prospect development costs	70	-
Gain on sale of capital assets	(78)	-
Cash flow from operations before changes in non-cash working capital	9,901	10,289
Changes in non-cash working capital (Note 12)	(4,238)	(3,562)
	5,663	6,727
FINANCING ACTIVITIES		
Issue of common shares, net of issue costs (Note 7(b))	181,474	13,554
Long-term debt advances	221,992	4,300
Long-term debt repayments	(61,724)	(4,714)
Revolving construction lines of credit advances	23,100	32,100
Revolving construction lines of credit repayments	(51,900)	(3,300)
Deferred financing costs	(1,958)	-
Unwind costs on interest rate swap (Note 6(a))	(1,924)	-
	309,060	41,940
INVESTING ACTIVITIES		
Capital asset additions, net of non-cash working capital (Note 12)	(129,144)	(50,303)
Prospect development costs	(8,160)	(10,728)
Net cash acquired on acquisition (Note 7(b))	638	-
Proceeds on sale of development prospects	310	17
	(136,356)	(61,014)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	178,367	(12,347)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,434	13,781
CASH AND CASH EQUIVALENTS, END OF YEAR	179,801	1,434
SUPPLEMENTAL INFORMATION		
Cash interest paid	9,245	6,549
Cash income and capital taxes paid	1,111	1,003

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries, Canadian Gas & Electric Inc., Cowley Ridge Wind Power Inc. ("Cowley"), Glacier Power Ltd., Canadian Hydro Developers (Ontario), Inc., Canadian Hydro Marketing Inc. and Revelstoke Hydro Power Ltd. The latter three companies are inactive. Inter-company transactions and balances are eliminated upon consolidation.

Certain hydroelectric activities of the Company are conducted jointly with others and accordingly, the accounts reflect only the proportionate interest of the Company's 50% owned unincorporated joint ventures, as described in Note 14.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of guarantees, contingencies and commitments at the date of the financial statements, and reported amounts of revenues and expenses during the period. Actual results could differ from those estimates due to factors such as commodity prices, changes in economic conditions, regulatory approvals, and negotiations with other parties (see Notes 3, 4, 5, 15(a) and 16(a)).

Cash and cash equivalents

Cash includes short-term deposits with initial maturities of 90 days or less.

Financial instruments

A portion of the Company's electrical energy sales are sold on a spot basis in Alberta and Ontario and, as such, the Company is exposed to commodity price risk. The Company mitigates this risk by entering into long-term physical and financial contracts for the sale of the majority of its electrical generation to third parties.

The Company makes significant purchases of equipment for the construction of new electrical generating plants with foreign suppliers and, as such, is exposed to foreign exchange risk. The Company mitigates this risk by fixing the exchange rate with suppliers prior to the purchase of equipment, when possible or by entering into foreign exchange forward contracts on or near the time of signing a contract to purchase equipment.

The carrying value of cash and cash equivalents, accounts receivable, revenue rebate, other liabilities, accounts payable and accrued liabilities approximates their fair value at December 31, 2005 and 2004 due to their short-term nature. The Company is exposed to credit related losses, which are minimized as the vast majority of sales contracts are with governments and large utility customers with extensive operations in British Columbia, Alberta and Ontario.

The Company's long-term debt is comprised of senior unsecured debentures, secured debentures, a construction facility, an operating facility, mortgages and a promissory note and, as such, the Company is exposed to interest rate risk. The Company mitigates this risk by either fixing the interest rates upon the inception of the debt or through interest rate swaps. The fair values of the debentures approximate their book values.

Derivative financial instruments are described in Notes 5 and 16(c).

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Electric operations

Electrical energy sales are recognized at the time of generation and delivery to the purchasing party as metered at the point of interconnection with the transmission system, net of gross overriding royalties.

Renewable Energy Certificates ("RECs") sales are recognized at the time of delivery to the purchasing party.

Generating plants are carried at cost which consists of direct labour, material and equipment costs, engineering, related administrative costs and interest incurred during construction or net recoverable value. Management amortizes, on a straight-line basis, hydroelectric and biomass plants over a 40 year period, notwithstanding the unlikelihood that these sites would ever be abandoned due to the renewable nature of the electrical energy being generated. Wind energy plants are amortized, on a straight-line basis, over a 30 year period, with the exception of the Taylor Wind Plant which is amortized over a 15 year period, notwithstanding the unlikelihood that these sites would ever be abandoned due to the renewable nature of electrical energy being generated. The estimated service life of electric generating plants is subject to periodic review and as a consequence, may change in the future. Such changes will be implemented on a remaining service life basis.

Vehicles, equipment and other

Vehicles, equipment and other assets are recorded at cost and amortized using the declining-balance method over their estimated useful lives at rates ranging from 10% to 50%.

Prospect development costs

The Company accumulates costs associated with electric site prospect development activities. Recovery of these costs is dependent upon the successful completion of the related projects. Costs associated with successful projects are reclassified as capital assets and amortized over the useful life of the projects. Costs of unsuccessful projects are written off in the year the prospect is abandoned.

Per share amounts

Basic earnings per share is computed by dividing earnings by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if options or warrants to purchase common shares were exercised. The treasury stock method is used to determine the dilutive effect of options and warrants, whereby any proceeds from the exercise of options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

Income taxes

Income taxes are calculated using the liability method. Temporary differences arising from the differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantively enacted tax rates that apply in the periods when the temporary differences are expected to reverse. Temporary differences arising on acquisitions result in future income tax liabilities or assets.

Asset retirement obligations

The Company recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. The associated asset retirement costs before salvage values are capitalized as part of

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

the carrying amount of the long-lived asset. The liability is accreted over the estimated time period until settlement of the obligation and the asset is amortized over the estimated useful life of the asset.

The Company has legal obligations to restore the sites of its generating plants to their original condition with the exception of its Ragged Chute Hydroelectric Plant. The fair value of the asset retirement obligation before salvage values for the Company's other hydroelectric plants, wind and biomass plants cannot be reasonably estimated due to the long service life of these assets and the unlikelihood that these sites would ever be abandoned due to the renewable nature of the electrical energy being generated. The estimated fair value of the asset retirement obligation for the Company's natural gas plant is nominal. Accordingly, no provision has been made for the asset retirement obligation.

Impairment of long-lived assets

The Company determines whether the net carrying amount of capital assets is recoverable from future undiscounted cash flows when indicators of impairment exist. In addition, the Company's business, the market and business environment are continually monitored, and judgments and assessments are made to determine whether an event has occurred that indicates a possible impairment. If such an event has occurred, an estimate is made of future undiscounted cash flows from the capital assets. If the total of the undiscounted future cash flows, excluding financing charges, is less than the carrying amount of the capital assets, asset impairment must be recognized in the financial statements. The amount of the impairment to be recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset. Fair value is the amount at which an item could be bought or sold in a current transaction between willing parties, and is estimated by calculating the present value of expected future cash flows related to the asset.

Stock-based compensation

The Company uses the fair value method of accounting for options granted subsequent to January 1, 2003 under its stock-based compensation plan, which is described in Note 7(d). Consideration received on exercise of stock options, along with amounts previously included in contributed surplus, are credited to share capital.

Deferred financing costs

Costs incurred with respect to the Company's financing activities are deferred and amortized over the term of the related debt.

Additional significant accounting policies

Additional significant accounting policies are described under Note 2.

2. CHANGES IN ACCOUNTING STANDARDS

Effective January 1, 2005, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") accounting guideline for identifying and accounting for variable interest entities ("VIEs"). Under the guideline, the Company is required to identify VIEs, determine whether it is the primary beneficiary of such entities and, if so, to consolidate them. The Company has considered the provisions of the guideline for all joint ventures and their related joint venture, operating and maintenance, marketing, power sales and debt agreements, if any. Factors considered in the analysis include how power sales payments are determined, responsibility and payment for capital, operating and maintenance expenses, and decision making by the joint venture participants. As a result of the review, the Company has determined that it does not have interests in VIEs that require consolidation. As a result of adopting this guideline there is no impact on the Company's financial statements.

3. CAPITAL ASSETS

The major categories of capital assets at cost and related accumulated amortization are as follows:

	2005			2004		
	Accumulated	Net Book	Value	Accumulated	Net Book	Value
	Cost	Amortization		Cost	Amortization	
	\$	\$	\$	\$	\$	\$
Generating plants						
- operating	272,317	28,504	243,813	156,345	22,867	133,478
- construction-in-progress	118,317	-	118,317	86,295	-	86,295
Vehicles	955	672	283	670	495	175
Equipment, other	1,948	835	1,113	1,294	705	589
	393,537	30,011	363,526	244,604	24,068	220,537

Interest costs of \$3,565,000 (2004 - \$1,381,000) and administration expenses of \$891,000 (2004 - \$514,000) associated with the construction-in-progress have been capitalized during construction. At December 31, 2005, construction-in-progress is comprised of costs relating to the Melancthon I Wind Project (2004 - Grande Prairie EcoPower® Centre ("GPEC") and the Upper Mamquam Hydroelectric Project ("Mamquam")). During 2005, \$108,062,000 was transferred from construction-in-progress to operating generating plants upon the commissioning of GPEC and Mamquam.

4. PROSPECT DEVELOPMENT COSTS

Prospect development costs are comprised of the following:

	2005	2004
	\$	\$
Wind prospects	20,004	9,297
Dunvegan Hydroelectric Prospect	7,676	6,885
Hydroelectric prospects	2,405	1,117
Total	30,085	17,299

Included in wind prospects is \$5,075,000 and \$14,484,000 in costs related to the development of the 132.0 MW Melancthon II Wind Project ("Melancthon II") and the 197.8 MW Wolfe Island Wind Project ("Wolfe Island"), respectively. Included in hydroelectric prospects is \$276,000 in costs related to the 20 MW (10 MW net to the Company's interest) Island Falls Hydroelectric Project ("Island Falls"). In November 2005, the Company was awarded 20 year Renewable Energy Supply contracts from the Ontario Power Authority, an agency of the Ontario Government, for the purchase of electricity and RECs generated from these plants. Regulatory approvals and debt financing are required prior to proceeding to construction.

The Company continues to pursue the development of the Dunvegan Hydroelectric Prospect. Regulatory approvals, long-term power sale contracts and financing are required prior to proceeding. Should the Company not be successful in

4. PROSPECT DEVELOPMENT COSTS (Continued)

obtaining regulatory approvals, the prospect would likely be abandoned and the related prospect development costs would be written off.

5. DERIVATIVE FINANCIAL INSTRUMENTS

To manage price risk, the Company enters into various contracts for differences ("CFDs") with third parties that settle with a fixed price based on the average monthly Pool Price for electricity. All hedges are documented at inception including information such as the hedging relationship, the risk management objective and strategy, the method of assessing effectiveness and the method of accounting for the hedging relationship. Hedge effectiveness is reassessed on a quarterly basis. Financial instruments that do not qualify for hedge accounting are recognized on the balance sheet and measured at fair value, with changes in fair value recognized in income. Fair value is determined by taking the difference between the fixed purchase price for electricity and the forward market selling price for electricity and multiplying this by the remaining notional amount of generation under the contracts. Where no forward market prices exist due to the illiquidity of the forward market, the fair value is assumed to equal the contract price.

To support the Company's obligations under a guarantee to a third party (see Note 15(b)), the Company entered into a contract (the "Contract") with another party whereby the other party will pay the Alberta Power Pool price to the Company in return for the Company paying the other party a fixed price for approximately 5 MW of electricity per year for three years commencing April 1, 2003. As this contract does not meet all of the criteria for hedge accounting, on January 1, 2004, the Contract was fair valued and an initial amount of \$408,000 was recorded as a derivative financial instrument asset and a deferred credit liability. The initial amount of the deferred credit was amortized over the life of the Guarantee, which ended on December 31, 2004, with a corresponding reduction made to construction-in-progress during the year. During the year ended December 31, 2005, \$1,161,000 in payments received from the other party in connection with the Contract and the increase in the fair value of \$145,000 were recognized into income as a gain on derivative financial instrument. The fair value of the Contract at December 31, 2005 was \$401,000. Fair value was determined by taking the difference between the fixed purchase price for electricity and the forward market selling price for electricity and multiplying this by the remaining notional amount of generation under the Contract.

As at December 31, 2005, \$444,000 was recorded as a derivative financial asset and a deferred credit liability for a CFD that did not qualify for hedge accounting for the first half of 2005. The deferred credit is recognized into income over the same period as the corresponding gains or losses associated with the contract. During the year, \$172,000 was recorded in income as a gain on derivative financial instrument with a remaining deferred credit liability as at December 31, 2005 of \$272,000. In addition, a loss of \$278,000 was recorded in income during the year reflecting the fair value of this CFD.

6. CREDIT FACILITIES

(a) Long-term debt

On February 11, 2005, the Company closed a joint debt private placement financing of the Pingston Hydroelectric Plant with its 50% joint venture participant (the "Pingston Debt"). The Pingston Debt consists of a \$70,000,000 (\$35,000,000 net to the Company), ten-year debt facility maturing on February 11, 2015, bearing interest at 5.281% per annum, with interest payable semi-annually and no principal repayments until maturity. The Pingston Debt is secured with a first fixed charge debenture, a floating charge over real property and an assignment of all material contracts related to the Pingston Hydroelectric Plant, as well as a pledge of the shares of Pingston Power Inc., without recourse to the joint venture participants. Concurrent with the closing of the Pingston Debt, the Company's corporate lenders removed the security that was associated with the Company's share of the Pingston Hydroelectric Plant.

6. CREDIT FACILITIES (Continued)

On June 23, 2005, the Company executed an amending agreement with its corporate lenders (the "Lenders") to extend its revolving loan (the "Bank Loan") and revolving construction lines of credit (see Note 6(b)) to September 23, 2005 (collectively, the "Credit Facilities"). Prior to repayment on September 1, 2005, the Bank Loan had a balance of \$49,935,000 and the revolving construction lines of credit had a balance of \$55,200,000. The Credit Facilities, including letters of credit, were secured by a first fixed and floating charge debenture on all plants and subsidiary companies, with the exception of the Pingston Hydroelectric Plant and Cowley, a second charge debenture on Cowley, security interest overall present and after acquired personal property, a floating charge over all real property, and an assignment of certain sales agreements.

On July 29, 2005, the Lenders provided a \$43,000,000 revolving bridge facility (the "Bridge Facility"), with monthly interest payments at prime plus 1.50% per annum, or at Bankers' Acceptances plus a fee of 2.75% per annum with standby fees of 0.25% for any undrawn portion. The Bridge Facility had a maturity date of September 23, 2005.

The Credit Facilities and the Bridge Facility were repaid on September 1, 2005 using proceeds from the Debentures and the Construction Facility (see below).

On September 1, 2005, the Company closed a private debt placement financing of \$120,000,000 of senior unsecured debentures (the "Debentures"). The Debentures have a 10-year term, with interest payable semi-annually at a rate of 5.334% and no principal repayments until maturity. The Debentures rank equally and ratably with all other unsecured and unsubordinated indebtedness of the Company for borrowed money. The Company used the proceeds from the Debentures to repay existing credit facilities.

In addition, on September 1, 2005, the Company closed a credit agreement with its Lenders for an aggregate of \$100,600,000 in unsecured credit facilities consisting of a \$75,600,000 construction facility (the "Construction Facility") and a \$25,000,000 operating facility (the "Operating Facility"). The Construction Facility is an unsecured, non-revolving credit facility, with a 364-day drawdown period, followed by a two-year non-amortizing term out period. The Operating Facility is a 364-day revolving credit facility, with a six-month non-amortizing term out period, extendable for one-year periods annually by mutual agreement of the Company and its Lenders. The credit facilities bear interest at Bankers' Acceptances plus a stamping fee of 0.80% per annum. The credit facilities rank equally and ratably with all other unsecured and unsubordinated indebtedness of the Company for borrowed money.

Upon inception of the Bank Loan (see above) on December 19, 2002, the Company entered into an interest rate swap arrangement to fix the interest rate at 6.77% per annum on 100% of the Bank Loan for the first five years and 50% of the Bank Loan in years 6 through 10. As the Bank Loan was retired on September 1, 2005, the Company unwound the interest rate swap at a cost of \$1,924,000 which has been charged to earnings during the year.

At December 31, 2005, the Company had not drawn any of its available Operating Facility except for letters of credit outstanding with its Lenders in the amount of \$24,138,000 (December 31, 2004 - \$15,345,000).

CANADIAN HYDRO DEVELOPERS, INC.
Notes to the Consolidated Financial Statements
Years Ended December 31, 2005 and 2004
(Tabular amounts in thousands of dollars, except share and per share amounts)

6. CREDIT FACILITIES (Continued)	2005 \$	2004 \$
Debentures (described above)	120,000	-
Pingston Debt (described above)	35,000	-
Construction Facility (described above)	56,600	-
Bank Loan (described above)	-	49,635
Mortgage on Cowley, bearing interest at 10.867%, secured by the plant, related contracts and a reserve fund for \$725,000 that has been provided by a letter of credit to the lender. Monthly repayments of principal and interest are \$121,000 until December 15, 2013	7,735	8,312
Mortgage, bearing interest at 10.7% and secured by letter of guarantee. Monthly repayments of principal and interest are \$84,000 until May 31, 2010	3,529	4,122
Mortgage, bearing interest at 10.68%, secured by letters of guarantee. Monthly repayments of principal are \$31,000 plus interest until December 30, 2012	2,625	3,000
Promissory note, bearing interest fixed at 6%, secured by a second fixed charge on three of the Alberta hydroelectric Plants. Monthly repayments of principal and interest are \$19,000 until August 1, 2012	1,276	1,428
	226,765	66,497
Less current portion	1,838	1,697
Long-term debt	224,927	64,800

Principal repayments for the long-term debt for each of the five succeeding years are as follows:

	\$
2006	1,838
2007	1,996
2008	58,770
2009	2,364
2010	1,977
Thereafter	159,820

226,765

6. CREDIT FACILITIES (Continued)

(b) Revolving construction lines of credit

On September 1, 2005, the Company repaid the outstanding balance on its revolving construction lines of credit using proceeds from the Debentures (see Note 6(a)). At December 31, 2004, \$28,800,000 was drawn by the Company.

7. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares

Unlimited number of preferred shares, to be issued in series

(b) Issued, common shares

	2005		2004	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Balance, beginning of year	74,683,861	107,779	68,885,539	93,057
Conversion of warrants	1,750,000	7,648	4,422,222	11,542
Issue of common shares	41,048,262	200,781	1,000,000	2,580
Issued on exercise of stock options	741,750	599	376,100	601
Share issue costs, net of tax effect of \$2,606,000 (2004 - \$nil)	-	(5,036)	-	(1)
Balance, end of year	118,223,873	311,771	74,683,861	107,779

On January 21, 2005, the Company acquired all of the issued and outstanding shares of Canadian Renewable Energy Corporation ("CREC") in exchange for 4,037,687 common shares of the Company valued at \$12,113,000. In addition, 500,000 Series A Special Warrants (the "Series A Warrants") and 1,750,000 Series B Special Warrants (the "Series B Warrants") were issued, which vest and automatically convert (without the payment of additional consideration) into common shares of the Company upon the occurrence of certain events. On November 21, 2005, as the Company was successful in obtaining 20-year contracts for Melancthon II, Wolfe Island, and Island Falls to sell power to the Ontario Power Authority, the Series B Warrants vested and converted into 1,750,000 common shares of the Company valued at \$7,648,000 based on the 10-day weighted average closing price prior to issuance of \$4.37 per common share. This additional consideration was allocated to the purchase price as prospect development costs.

The Series A Warrants will vest and automatically convert into common shares of the Company shares if the Company is successful in obtaining a 20 year contract to sell power to Ontario Electricity Finance Corporation or another Ontario Government agency (the "Contract") by the later of December 31, 2005 and the date of the awarding of the Contract (the "Contract Awards") in the event that Misema has been bid into a request for proposals (or similar) process (the "Contract Process") issued by the Ontario Government on or before December 31, 2005 and such Contract Process has not announced the Contract Awards on or prior to December 31, 2005. Should the Series A Warrants vest and automatically convert into common shares of the Company, the additional consideration will be allocated to the assets of CREC for accounting purposes.

7. SHARE CAPITAL (Continued)

This purchase price has been allocated and recorded as follows:

	\$
Misema Hydroelectric Plant	6,934
Prospect development costs	16,523
Working capital	555
Future tax liability	(4,202)
Purchase price	19,810

On August 23, 2005, the Company issued 85,575 common shares of the Company to a third party as part of an agreement related to the construction of one of the Company's plants. The number of shares issued was based on the 30-day weighted average closing price prior to issuance of \$4.09 per common share.

On December 19, 2005, the Company closed a public offering of common shares through a syndicate of underwriters for the issue of 32,500,000 common shares at a price of \$5.10 per share for gross proceeds of \$165,750,000 (\$159,120,000 net of share issue costs). Included in the public offering was an over-allotment option which was exercised by the underwriters on December 23, 2005, resulting in the issuance of 4,425,000 additional common shares of the Company at a price of \$5.10 per share for gross proceeds of \$22,568,000 (\$21,665,000 net of share issue costs).

(c) Warrants

	2005		2004	
	Number of Warrants	Amount \$	Number of Warrants	Amount \$
Balance, beginning of year	-	-	5,422,222	1,150
Issuance of warrants	2,250,000	-	-	-
Exercise of warrants	(1,750,000)	-	(4,222,222)	(1,150)
Expiry of warrants	-	-	(1,000,000)	-
Balance, end of year	500,000	-	-	-

(d) Options

The Company has a stock option plan under which the Board of Directors may grant stock options to directors, officers, employees, and other persons considered key to the Company's operations at an exercise price equal to the market price of the Company's common shares at the time of grant. Under the plan, options vest at a rate of 25% on each anniversary date of the option grant. All outstanding options granted prior to April 1, 2005 have a 10-year term. Effective April 1, 2005, all new options granted expire after five years. The total number of options outstanding must not exceed 8.5% of the total common shares outstanding. At December 31, 2005, the Company had approved for issuance 6,595,157 options (2004 - 7,262,243) of which 4,282,150 were issued (2004 - 3,843,900).

7. SHARE CAPITAL (Continued)

Options reconciliation table:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2003	4,220,000	\$1.44
Granted	25,000	\$2.74
Exercised	(376,100)	\$1.55
Cancelled	(25,000)	\$1.85
Outstanding at December 31, 2004	3,843,900	\$1.43
Granted	1,230,000	\$3.82
Exercised	(741,750)	\$0.81
Cancelled	(50,000)	\$1.94
Outstanding at December 31, 2005	4,282,150	\$2.22

The following table summarizes information about stock options outstanding at December 31, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.63 to \$1.00	1,335,000	1.6	\$0.78	1,335,000	\$0.78
\$1.85 to \$2.10	1,133,400	6.6	\$1.93	777,150	\$1.94
\$2.26 to \$3.20	583,750	6.1	\$2.71	484,688	\$2.76
\$3.39 to \$4.16	1,230,000	4.8	\$3.82	-	-
	4,282,150	4.4	\$2.22	2,596,838	\$1.50

Using the fair value method of accounting for stock options issued on or after January 1, 2003, the Company recognized \$494,000 or \$nil per share (2004 - \$224,000; \$nil per share) of compensation expense in the consolidated statement of earnings, with a corresponding increase recorded to contributed surplus. The weighted average fair value of options granted during the year ended December 31, 2005 was \$1.36 per share (2004 - \$1.39 per share), which was estimated using the Black-Scholes option-pricing model, assuming a risk free interest rate of 3.54% (2004 - 4.32%), expected volatility of 37.67% (2004 - 37.69%), expected weighted average life of four years (2004 - eight years), and no annual dividends paid.

7. SHARE CAPITAL (Continued)

If the fair value method of accounting had been used for stock options issued to employees on or after January 1, 2002, but prior to January 1, 2003, then the effect on net earnings would have been a decrease of \$123,000 (\$nil per share) for each of the years ended December 31, 2005 and 2004. The weighted average fair value of options granted during the year ended December 31, 2002 was \$1.41 per share, which was estimated using the Black-Scholes option-pricing model, assuming a risk free interest rate of 5.25%, expected volatility of 45.68%, expected weighted average life of eight years, and no annual dividends paid.

8. REVENUE REBATE

The revenue rebate is paid by the Balancing Pool in accordance with the Revenue Rebate Regulation of the Alberta Small Power Research and Development Act, which will apply until the associated power sale agreements expire in 2013 and 2014. The revenue rebate is based on the federal cash taxes paid by Cowley.

9. ADMINISTRATION EXPENSES

During the year ended December 31, 2005, administration expenses were reduced by a cash receipt of \$750,000, net of associated costs, resulting from the settlement of a lawsuit the Company had with a former insurer and engineering firm associated with a project.

10. TAXES

The components of the future income tax liability at December 31, 2005 and 2004 are as follows:

	2005	2004
	\$	\$
Future income tax liabilities		
Capital assets	24,692	18,291
Prospect development costs	1,013	1,030
Derivative financial instrument	135	-
Future income tax assets		
Non-capital loss carryforwards	(1,649)	(393)
Capital loss carryforwards	(91)	(91)
Share issue costs	(3,869)	(578)
Net future income tax liability	20,231	18,259

At December 31, 2005, the Company had non-capital loss carryforwards of \$4,567,000 (2004 - \$1,463,000), which expire in 2007 through 2011. The tax impact of the losses has been recognized in the consolidated financial statements.

Total taxes are different than the amount computed by applying the combined statutory Canadian and Provincial tax rates of 34.69% (2004 - 34.51%) to income before taxes. This difference results from the following:

10. TAXES (Continued)

	2005 \$	2004 \$
Statutory tax rate	34.69%	34.51%
Computed expected tax	887	2,279
- impact of statutory tax rate change on future tax liability	(137)	(328)
- large corporations tax and provincial capital taxes	845	372
- other	142	101
Provision for taxes	1,737	2,424
Comprised of:		
Current	1,361	845
Future	376	1,579
	1,737	2,424

11. EARNINGS PER SHARE

The following table shows the dilutive effect of all dilutive securities on the weighted average common shares outstanding. No adjustments to earnings were required for the calculation of diluted earnings per share.

	2005 Number of Shares	2004 Number of Shares
Basic weighted average shares outstanding	80,533,813	70,828,526
Effect of dilutive securities:		
Options	2,727,779	1,664,054
Warrants	-	467,353
Diluted weighted average shares outstanding	83,261,592	72,959,933

12. CHANGES IN NON-CASH WORKING CAPITAL

	2005 \$	2004 \$
Accounts receivable	(3,290)	715
Revenue rebate	(5)	7
Taxes receivable	41	(41)
Prepaid expenses	(143)	158
Taxes payable	251	(120)
Accounts payable and accrued liabilities	2,779	(4,281)
	(376)	(3,562)
Less: Accounts payable relating to capital assets and other	(3,871)	-
	(4,238)	(3,562)

13. RELATED PARTY TRANSACTIONS

Gross overriding royalties ranging from 1% - 2% are payable by the Company on electric energy sales on four of the Company's original hydroelectric plants to a company controlled by a director and officer of the Company. During the year, royalties totalling \$75,000 (2004 - \$61,000) were incurred with \$2,000 (2004 - \$6,000) payable at year end.

14. JOINT VENTURES

A financial summary of the Company's joint ventures as at December 31, 2005 and 2004, which are proportionately consolidated based on the 100% values, are presented below:

	2005	2004
	\$	\$
Current assets	2,607	589
Long-term assets	88,768	89,442
Current liabilities	1,852	854
Long-term liabilities	70,000	-
Revenues	11,538	12,458
Expenses	7,370	3,981
Net earnings	4,168	8,477
Cash flows from operating activities	5,810	10,161
Cash flows used in investing activities	(328)	(3,661)
Cash flows used in financing activities	(3,435)	(4,552)

The Company holds a 50% interest in the Taylor Hydro Plant, which is located in the province of Alberta, and a 50% interest in the Pingston Hydroelectric Plant, which is located in British Columbia.

15. GUARANTEES

- (a) The Company has various guarantees and indemnifications in place in the ordinary course of business, none of which, as assessed by management, are expected to have a significant adverse impact on the Company's financial statements or operations. In addition to these guarantees and indemnifications, the Company has other specific guarantees and indemnifications, which are described in Notes 6(a) and 15(b).
- (b) In accordance with the power plant agreement (the "Agreement") with Canfor Corporation ("Canfor"), a subsidiary of the Company guaranteed the price of electricity and natural gas purchased by Canfor for their Grande Prairie Mill at prices set out in the Agreement as if GPEC was operational (the "Guarantee"). At December 31, 2004, the Company recorded \$2,290,000 as an increase to construction-in-progress and other liabilities for the Guarantee. In 2005, once the plant became operational, this liability was reduced by payments due to the Company from Canfor. The balance of the liability as at December 31, 2005 is \$nil.

16. COMMITMENTS AND CONTINGENCIES

- (a) On April 1, 2004, the Company entered into a new 25 year lease agreement (the "Lease") with Ontario Power Generation ("OPG") for the 6.6 MW Ragged Chute Hydroelectric Plant (the "Plant") commencing June 30, 2004. The rent under the Lease is calculated as 30% of electric energy sales from the Plant. After June 30, 2024, upon 12 months written notice, OPG can terminate the Lease upon payment to the Company of three times the

16. COMMITMENTS AND CONTINGENCIES (continued)

then net book value of the Plant. Under the Lease, the Company has agreed to repair the weir at the Plant to the highest minimum standard required by law by July 1, 2008, the cost of which cannot be reasonably determined until a full engineering review is completed by the Company. The engineering review is expected to be completed in 2006. Upon expiry of the Lease and payment of \$6,600,000 by OPG to the Company, the Company will provide OPG with vacant possession of the plant. As the property upon which the Lease is located is owned by the Crown, the Ontario Ministry of Natural Resources has granted consent to the Lease.

- (b) The Company is committed to sell 85% of its capacity, which represented 85% of its electrical generation for the year ended December 31, 2005, to several third parties under long-term physical fixed price contracts maturing from 2006 to 2027.
- (c) The Company has entered into various CFDs with other parties whereby the other parties have agreed to pay a fixed price to the Company based on the average monthly Pool price for an aggregate of 184,330 MWh per year of electricity from January 1, 2006, maturing from 2007 to 2024. While the CFDs do not create any obligation by the Company for the physical delivery of electricity to other parties, management believes it has sufficient electrical generation, which is not subject to contract, to satisfy the CFDs. The Company is unable to fair value two of the CFDs for an aggregate of 4,150 MWh per year of electricity because the CFD prices includes the sale of RECs along with the settlement of the average monthly Pool price. At December 31, 2004, the Company fair valued its various CFDs with other parties using the forward market prices for electricity for 2005 and 2006 and, due to the illiquidity of the forward market past 2006, using the 2006 forward market price for 2007 onwards, discounted at 5%. In 2005, given the ongoing illiquidity of the forward market, the Company enhanced its assumptions for fair valuing its CFDs by assuming the actual contract prices contained in the CFDs were the same as the forward prices for periods where no forward market prices exist. Had these assumptions been used at December 31, 2004, the fair value of the Company's CFDs would have resulted in a gain of \$1,035,000 compared to a gain of \$7,327,000 as disclosed previously. The enhanced assumptions relate to fair value disclosures and have no impact on previously reported earnings. During the six months ended June 30, 2005, one of the Company's CFDs no longer qualified as a hedge and hedge accounting was discontinued. On July 1, 2005, the CFD re-qualified as a hedge (see Note 5). As at December 31, 2005, the fair value of the remaining CFDs that continue to qualify as hedges would result in a loss of \$1,021,000.
- (d) In conjunction with power sales, the Company has entered into various contracts with other parties whereby it has committed to sell 358,500 MWh per year of RECs maturing from 2008 to 2024. One of the contracts requires the RECs to be generated from GPEC in order to satisfy the contract. Should this plant not generate sufficient RECs, the contract allows for any shortfall to be satisfied by the Company's other RECs that are not subject to contract. Management believes it will have sufficient RECs from GPEC to satisfy the contract.
- (e) In the ordinary course of constructing new projects, the Company routinely enters into contracts for goods and services. As at December 31, 2005, the Company committed to approximately \$419,699,000 for goods and services for Melancthon I, Melancthon II and Wolfe Island, which will be expended between 2006 and 2008. Melancthon I is expected to be completed in March 2006, and Melancthon II and Wolfe Island are expected to be completed in 2007 and 2008, respectively.

17. SUBSEQUENT EVENTS

- (a) In January 2006, the Company entered into various foreign exchange contracts, expiring in 2007, which fix the Company's U.S. dollar and Euro payments under wind turbine purchase contracts in Canadian dollars. The aggregate amount of U.S. dollar purchases is \$146,068,845, which is fixed at a blended average rate of 1.1515 for an aggregate Canadian dollar amount of \$168,198,275. The aggregate amount of Euro purchases is €26,161,630, which is fixed at a blended average rate of 1.4095 for an aggregate Canadian dollar amount of \$36,874,817. These foreign exchange contracts are expected to qualify as hedges for accounting purposes.
- (b) In January 2006, the Company entered into a CFD with a third party whereby the party has agreed to pay a fixed price to the Company based on the average Pool prices for 17,520 MWh per annum. The contract begins on January 1, 2007 and expires on December 31, 2007. While the CFD does not create any obligation by the Company for the physical delivery of electricity to the third party, the Company believes it will have sufficient electrical generation to satisfy the CFD throughout its term, and as such, the Company expects the CFD to qualify for hedge accounting.

LIGHTING INITIATIVE

WECHIAU UPDATE



Thanks to the generosity of over 160 donors from Canadian Hydro's network of supporters, suppliers and stakeholders, in December 2005 the Wechiau Lighting Initiative achieved its funding target of \$126,500. The successful implementation of this initiative is due to the coordination and team work of the many organizations that have collaborated with Canadian Hydro on this project, including Light Up the World, the Calgary Zoo, the Nature Conservation Research Centre and the Wechiau Community Hippo Sanctuary.

The following report is a summary from the Wechiau Lighting Initiative Year End Progress Report 2005 prepared by Donna Sheppard, Sanctuary Advisor, Calgary Zoo Conservation Outreach. A complete copy of the report is available at www.canhydro.com.

The Wechiau Lighting Initiative has proven to be both a rewarding and challenging undertaking over the course of the past year. The rewards have been many: watching the smiles of comprehension as the light is demonstrated for the first time; witnessing the pride and gratitude on the faces of the old village headmen who have saved enough money to purchase their new systems; sharing in the many wonderful stories of solar lighting use; and celebrating each new installation with family members and villagers.

Challenges have come from many directions too: untangling the complicated international shipping and receiving process; designing and re-designing the best installation applications; interpreting and managing the local political climate; and remaining patient with the essential pace of progress.

Over the course of the year, people have had the opportunity to gain confidence and trust in the initiative, and gain assurance in the product. The multiple benefits to such a lighting system have become abundantly clear to those still 'in the dark'. In households with installed systems, the women have been using solar lights for cooking, and children have been gathering underneath lights to do their homework. Throughout the night and into the early dawn, the family compound is bathed in a low-level light for quick detection of snakes and other dangers.

An important punctuation point for the Wechiau Lighting Initiative in 2005 was the official site visit by John Keating and his family. John was able to inspect and endorse field activities and, in the process, experience the realization of a shared dream.



Women working by lamp light.



John Keating during his 2005 visit.



The official turning on of the compound lights.

MANAGEMENT:

Kent E. Brown, CA
Chief Financial Officer

Angelito de la Paz, CGA
Treasurer

M. Ann Hughes, LLB
Executive Vice President
and Corporate Secretary

John D. Keating, CA
Chief Executive Officer

J. Ross Keating, PEng
President and Chief
Operating Officer

Doug Hazelton, PEng
Manager, Thermal Division

David R. Keevill, PEng
Manager, Hydro Division

Gavin S. Lowe
Manager, Wind Energy Division

Kelly Matheson, B.Sc.
Manager, Environmental Affairs

Stephen J. O'Gorman
Manager, Business Development
and Marketing

DIRECTORS:

Kevin J. Brown⁽¹⁾
Calgary, Alberta

Michael N Chernoff⁽²⁾
West Vancouver, B.C.

Dennis M. Erker⁽³⁾
Edmonton, Alberta

John D. Keating
Calgary, Alberta

J. Ross Keating
Calgary, Alberta

Jim R. Shaw
Calgary, Alberta

David J. Stenason^{(1),(2)}
Montreal, Quebec

Cyrille Vittecoq^{(1),(2)}
Montreal, Quebec

⁽¹⁾ Member of Audit Committee

⁽²⁾ Member of Compensation Committee

⁽³⁾ Board Chair

TRANSFER AGENT AND REGISTRAR:

Computershare Trust Company of Canada
Calgary, Alberta; Vancouver, British
Columbia; Toronto, Ontario

SHARE STRUCTURE (as of February 13, 2006):

Common issued and outstanding: 119,017,773
Fully diluted common shares: 123,006,023

HEAD OFFICE:

Suite 500, 1324 – 17 Avenue SW
Calgary, Alberta, Canada T2T 5S8
Tel: (403) 269-9379
Fax: (403) 244-7388
Email: canhydro@canhydro.com
Internet: www.canhydro.com

AUDITORS:

Deloitte & Touche LLP
Calgary, Alberta

BANKERS:

The Toronto-Dominion Bank, Calgary, Alberta
The Bank of Nova Scotia, Toronto, Ontario
National Bank of Canada, Calgary, Alberta
Alberta Treasury Branches, Calgary, Alberta

INDEPENDENT ENGINEERS:

McDaniel & Associates Consultants Ltd.,
Calgary, Alberta

STOCK EXCHANGE LISTING:

Toronto Stock Exchange "KHD"



In keeping with Canadian Hydro Developers' commitment to the environment, the paper used for our annual report has been produced using no trees. The paper has been made using a crop called Kenaf, a member of the hibiscus family. This crop grows quickly so herbicide use is unnecessary and insecticides are not required, therefore, no chemicals are leached into the surrounding soil or water.

Kenaf is naturally whiter than tree fiber so it can be easily pulped in a totally chlorine free environment.

For more information on Kenaf Paper please visit: www.visionpaper.com

The entire report is printed with vegetable-based inks.

If the world were a gigantic puzzle,
Canadian Hydro Developers, Inc.
would be one of the pieces that make it complete.

And within that giant 'piece of the puzzle'
would be a myriad of interlocking tiny pieces,
each one symbolizing an individual's effort
to be an integral part of a team that strives
to make our world a better place.

Canadian Hydro Developers, Inc.:
It's not only about 'green energy'.
It's about teamwork -
the power of people working together.

